

UNACCOUNTABLE GOVERNMENT: GAO REPORTS SHOW FEDS STRUGGLING TO TRACK MONEY AND PERFORMANCE

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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UNACCOUNTABLE GOVERNMENT: GAO REPORTS SHOW FEDS STRUGGLING TO TRACK MONEY AND PERFORMANCE

Wednesday, July 10, 2013,

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The committee met, pursuant to call, at 9:36 a.m., in Room 2247, Rayburn House Office Building, Hon. Darrell Issa [chairman of the committee], presiding.

Present: Representatives Issa, Mica, Turner, Duncan, McHenry, Jordan, Walberg, Lankford, Amash, DesJarlais, Gowdy, Woodall, Collins, Meadows, Bentivolio, Cummings, Maloney, Lynch, Connolly, and Duckworth.

Staff Present: Ali Ahmad, Majority Communications Advisor; Molly Boyd, Majority Senior Counsel and Parliamentarian; Lawrence J. Brady, Majority Staff Director; John Cuaderes, Majority Deputy Staff Director; Adam P. Fromm, Majority Director of Member Services and Committee Operations; Linda Good, Majority Chief Clerk; Michael R. Kiko, Majority Staff Assistant; Mark D. Marin, Majority Counsel; Tegan Millspaw, Majority Professional Staff Member; James Robertson, Majority Senior Professional Staff Member; Katy Rother, Majority Counsel; Laura L. Rush, Majority Deputy Chief Clerk; Scott Schmidt, Majority Deputy Director of Digital Strategy; Peter Warren, Majority Legislative Policy Director; Rebecca Watkins, Majority Deputy Director of Communications; Jedd Bellman, Minority Counsel; Krista Boyd, Minority Deputy Director of Legislation/Counsel; Beverly Britton Fraser, Minority Counsel; Jennifer Hoffman, Minority Communications Director; Elisa LaNier, Minority Director of Operations; Dave Rapallo, Minority Staff Director.

Chairman ISSA. The committee will come to order.

The Oversight Committee exists to secure two fundamental principles. First, Americans have a right to know the money taken from them is well spent. And second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold Government accountable to taxpayers, because taxpayers have a right to know what they get from their government. It is our job to work tirelessly in partnership with citizen watchdogs and the GAO to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

Imagine beginning every month not knowing how much money you have and not being able to track what money has been spent. Personally, in our family it is unthinkable. Yet month after month, year after year, that is exactly where the Federal Government operates. The American people are periodically reminded of this when we talk about the upcoming debt ceiling. And yet the debt ceiling seems to move not by hours or days, but by weeks and then months and often nearly a year, as money is somehow found and consumed that was claimed not to be there.

That is not entirely a shell game, but rather the reality that until they go looking for it, they don't know where it is. When they find it, they often don't know how much they have. It is unbelievable, it is unverifiable. And it is unaccountable. We have no idea how much money is spent and how much we owe. We have yet close approximations.

And more and more, President Obama keeps asking the American people to trust government and to give them more authority with your money. For all the promises of reform and modernization in government, the reality is, the promises have fallen short, no reform has occurred, and in fact, this committee has found that it is harder and harder to get execution of existing accountability.

As chairman at this time, I have to remember that this is not a new problem. Is it a problem exacerbated by new government programs? Certainly the looming Affordable Care Act creates the likelihood that we will be administering over a large portion of our gross domestic product at a Federal level.

In fact, later in this July session, we will be looking at whether we can secure the records of every American's taxes, I repeat, every American's taxes, when they are put out as part of the Affordable Care Act. This is a large undertaking, and one that involves huge privacy issues.

Now, health care records and your income and financial spending wouldn't seem to be linked, except they are all linked by whether or not computer systems work. They are all linked by whether accounting systems work, and they are all linked by whether or not the system the government employs to authorize people to make entry, to oversee entry and to analyze the actual current state all is the same.

So the accuracy of your health care, the protection of your privacy and whether we can track tax dollars all are effectively the same problem. But rather than looking at an individual who finds themselves with their entire health record on the internet, or perhaps millions of veterans who find that their personal information was taken home on a laptop and somehow the laptop was lost and as a result personal information can be available on millions of Americans.

In the case of the GAO's look, and its blunt, straightforward analysis that this government is broken, allows us to see it quantitatively in dollars and cents. This is not to say that this problem began on this President's watch, but it is this President's watch, it is the ranking member's watch and it is my watch.

So today, we want to say to the American people, don't expect miracles, but do expect government to begin performing basic math better. We live in the 21st century. There are companies who today

are trying to figure out how to reacquire tens of billions of dollars that are stranded overseas from their profits that did not exist, I repeat, did not exist when many on the dais came to Congress. Companies have been formed, accounting systems created, vast capability to analyze and be accurate to the penny and meet the requirements of public accounting have occurred with companies that did not exist a decade ago.

If we can create great institutions from scratch, tilt them up and make their information secure and available to seven billion people around the world and do it in the time that Mr. Cummings and I have served in Congress, then how is it that we are worse off, no better off when it comes to government accountability than we were at the time that my ranking member and I came to Congress? That is part of why we will hear today, and I recognize the ranking member for his opening statement.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. And I thank you for holding this hearing.

I want to thank you, Mr. Dodaro, for testifying today. I appreciate the work that you and your staff have put into the reports that form the basis for your testimony today. And I trust that you will express the appreciation of our committee for the very hard and excellent work.

This hearing focuses on two areas that are the core of this committee's jurisdiction: government financial data and government performance data. In order to be efficient and effective, the government has to know how much money it has, how much money it is spending, and whether that money is being spent wisely. The Government Accountability Office performs an audit each year of the consolidated financial statements of the government, which are prepared by the Department of Treasury in coordination with the Office of Management and Budget.

In January, GAO reported that it could not, could not express an opinion on the audit of the government's books for fiscal years 2011 and 2012. This is not a new problem. GAO has not been able to express an audit opinion on the government's books since it started performing these audits in 1997.

The Department of Defense is one of the main reasons GAO is unable to give an audit opinion. The DOD is responsible for more than half of the Federal Government's discretionary spending, but it is unable to prepare auditable financial statements. GAO has included DOD financial management in its high risk list in 1995.

In its 2013 high risk report, GAO said this: "DOD is one of the few federal entities that cannot accurately account for its spending or assets. It is one of three major impediments that prevent GAO from rendering an opinion on the annual consolidated financial statements of the Federal Government. Without accurate, timely and useful financial information, the DOD is severely hampered in making sound decisions affecting its operations."

On the other hand, the Department of Homeland Security has made major improvements. For the first time, DHS received a qualified audit opinion for fiscal year 2012. This is the result of a concerted effort by the Secretary and other DHS officials to improve the Department's financial management. It is also the result

of the work of this committee holding the Department accountable through hearings and briefings.

Fiscal responsibility is about more than just balancing books. It is also critical for the government to know whether the money that is spent is doing what it was intended to do. In 2011, the President signed into law the Government Performance and Results Modernization Act of 2010. That law was sponsored by Representative Henry Cuellar and it was approved on a bipartisan basis by this committee. The Act required GAO to conduct assessments of the law's implementation, and on June 26th, GAO issued its report. GAO found that the government has made major strides through implementation of the law.

John Kominsky, a senior fellow with the IBM Center for the Business of Government, offered this conclusion as his takeaway from the GAO report: "The key story that stands out for me is that the conceptual framework of the GPRA Modernization Act and the actual use of its provisions, such as priority setting and data driven progress reviews, are seen as effective by agency managers."

GAO also found a number of areas that need improvement. For example, GAO found that agencies are not doing enough to track issues that cut across agencies, such as climate change and food safety. I look forward to hearing GAO's recommendations for how the government can do better, both in terms of financial management and performance management.

With that, I yield back.

Chairman ISSA. I thank the gentleman. All members will have seven days to submit opening statements and extraneous materials for the record.

We now recognize our panel. We recognize the Honorable Gene Dodaro, who is the Comptroller General of the United States. We ask the following GAO advisors accompanying Mr. Dodaro to stand and be sworn at the same time. And if there are any others other than the ones I mention, please let me know.

Nancy Kingsbury, Gary Engel, Robert Dacey, Steve Sebastian, Asif Khan and Chris Mihm. Is that complete? Would you please rise and raise your right hand to be sworn?

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth and nothing but the truth?

[Witnesses respond in the affirmative].

Chairman ISSA. Let the record indicate that all witnesses answered in the affirmative.

Mr. Dodaro, you have been here so often that to say please bear in mind that your entire statement will be placed into the record would be redundant. So I will dispense with that. The gentleman is recognized.

WITNESS STATEMENT

STATEMENT OF GENE DODARO

Mr. DODARO. Thank you very much, Mr. Chairman, Ranking Member Cummings, members of the committee. I am pleased to be here today to discuss GAO's Audit of the Consolidated Financial Statements of the Federal Government, and also our assessment of

the initial implementation of the Government Performance and Results Modernization Act of 2010.

As it relates to the financial management of the Federal Government, we reported 21 of the 24 largest departments and agencies were able to receive an unqualified opinion for fiscal year 2012 statements. However, as has been pointed out in opening statements, there are serious material weaknesses in internal controls and financial reporting that have prevented us from being able to give an opinion on the consolidated financial statements of the United States Government. The three major impediments are serious financial management problems at the Department of Defense, the inability to eliminate intra-governmental transactions among Federal departments and agencies, and an ineffective process to compile the financial statements of the Federal Government.

DOD, OMB and Treasury are all seeking to rectify these weaknesses. But our assessment is that much more work needs to be done in order to address these issues and put the Federal Government in a position where it can get an opinion on its consolidated financial statements.

We were also unable to express an opinion on the statement of social insurance, which covers Social Security and Medicare programs, due to the uncertainties associated with the estimates for restraining cost growth under the Medicare program.

With regard to other areas we pointed out in that report, we also pointed out that there were internal control weaknesses in improper payments and computer security across the government, and made other observations and recommendations.

Now, with regard to performance management, the Modernization Act of 2010, the initial implementation of setting up the requirements for the Act has taken place. The Administration has set interim cross-cutting goals, the agencies have set priority goals. They have assigned responsibilities as outlined in the Act for performance officers in the departments and agencies, and they are beginning to hold quarterly progress reviews, performance reviews that are required under the Act.

However, there are a number of significant areas that we pointed out where there are remaining weaknesses and opportunities for improvement. First of all, we find little improvement in the use of performance measurements and information from the survey we did for this work in 2012, compared to 1997. So there is a need to really increase the use of the information and the usefulness of the information there as well. We also pointed out where there are areas where there have been difficulties in measuring performance that have yet to be overcome, for example, in the grants and contracts area. So there is a lot of room for improvement and actually developing better, more complete and useful performance measures.

We found there were missed opportunities in cross-cutting areas across the government where programs were included to be measured, but not tax expenditures. So the performance at tax expenditures needs to come under greater scrutiny as well as to whether it is achieving its objectives or not, and assessing government-wide priority goals as well.

We also found the law requires that there be a public website set up to increase transparency. That has been done, but the website can be improved greatly in terms of its usefulness and transparency. We made recommendations that more work is done in assessing the needs of people in the Congress and the public to use that information to make it more transparent and useful to the American public.

We also found little evidence of meaningful consultations with the Congress.

Chairman ISSA. Could you repeat that?

Mr. DODARO. Yes. We found little evidence that there were meaningful consultations with the Congress in this case, and made recommendations there be better documentation. One of the main objectives of this Act, even though the original 1993 Act required consultations with the Congress, the 2010 Act was to increase those consultations and require them to be documented by the agencies in their reporting. That hasn't been done to, we think, the intentions and the expectations of the Congress.

So we made many recommendations in all these areas to OMB. They have agreed to implement all the recommendations, so we will be tracking their progress in our future reports on these areas as well as on the consolidated financial statement.

So just in closing, I would say, and I want to underscore, meaningful improvement in financial management and performance management will not occur without greater leadership on the part of the Executive Branch and rigorous oversight by the Congress. It is needed in order to have financial and performance data that are commensurate with dealing with the significant problems we have in the Federal Government, both fiscal management and performance. I applaud the committee for holding this hearing, and I look forward to continuing the work with you and the Congress and the Administration in bringing about meaningful reform.

Thank you.

[Prepared statement of Mr. Dodaro follows:]



United States Government Accountability Office

Testimony
Before the Committee on Oversight and
Government Reform, House of
Representatives

For Release on Delivery
Expected at 9:30 a.m. EDT
Wednesday, July 10, 2013

FINANCIAL AND PERFORMANCE MANAGEMENT

More Reliable and Complete Information Needed to Address Federal Management and Fiscal Challenges

Statement of Gene L. Dodaro
Comptroller General of the United States

GAO Highlights

Highlights of GAO-13-752T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

To operate as effectively and efficiently as possible and to make difficult decisions to address the federal government's management and fiscal challenges, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and programs and for government as a whole. GAO is required to annually audit the consolidated financial statements of the U.S. government. In addition, GAO is required to periodically report on federal agencies' efforts to increase the use of performance information in government and to take a more crosscutting and integrated perspective on performance.

This testimony presents the results of GAO's recent audits and reviews related to (1) the U.S. government's consolidated financial statements for fiscal year 2012, and (2) executive branch implementation of key provisions of the GPRA Modernization Act of 2010.

What GAO Recommends

Over the years, GAO has made numerous recommendations directed at improving federal financial management. The federal government has generally taken or plans to take actions to address GAO's recommendations. GAO has also made numerous recommendations to OMB to more fully implement the GPRA Modernization Act of 2010. OMB staff agreed with these recommendations.

View GAO-13-752T. For more information, contact Robert F. Dacey or Gary T. Engel at (202) 512-3406, or J. Christopher Mihm at (202) 512-6806.

July 10, 2013

FINANCIAL AND PERFORMANCE MANAGEMENT

More Reliable and Complete Information Needed to Address Federal Management and Fiscal Challenges

What GAO Found

Three long-standing major impediments prevented GAO from expressing an opinion on the U.S. government's 2012 accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense (DOD), (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements. Also, GAO was prevented from expressing opinions on the 2012 social insurance-related statements because of significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth reflected in the statements.

DOD continues to work to address its financial management challenges with the goal of full financial statement auditability, but has much work to do if the department is to meet its audit readiness and financial management improvement goals. In addition, the Department of the Treasury, in coordination with the Office of Management and Budget (OMB), is taking actions to address issues related to intragovernmental activity and preparation of the consolidated financial statements, but additional efforts and sustained commitment are required to fully resolve these issues.

The 2012 *Financial Report of the United States Government* included comprehensive long-term fiscal projections, which provide a much-needed perspective on the federal government's long-term fiscal position and outlook. These, like GAO's simulations, include the savings provided by the Budget Control Act of 2011, yet still show an unsustainable long-term fiscal path.

As GAO reported in June 2013, the executive branch has taken a number of steps to implement key provisions of the GPRA Modernization Act of 2010 (GPRAMA or the act), such as the development of interim cross-agency and agency-specific priority goals and use of data-driven quarterly performance reviews. However, the executive branch needs to do more to fully implement and leverage the act's provisions to address governance challenges in the following five areas: (1) OMB and agencies have made some progress addressing crosscutting issues, but are missing additional opportunities such as assessing the performance of tax expenditures; (2) while key performance management practices hold promise, ensuring performance information is useful and used by managers to improve results remains a weakness. For example, GAO found little improvement in federal managers' reported use of performance information or practices that could help promote its use, based on its periodic government-wide surveys of federal managers since 1997. Moreover, only 37 percent of managers reported that a program evaluation had been completed in the past 5 years of any program or operation they were involved in; (3) agencies have taken steps to align daily operations with agency results, but continue to face difficulties measuring performance in areas such as grants and contracts; (4) communication of performance information could better meet users' needs; and (5) agency performance information is not always useful for congressional decision making. GAO found little evidence that meaningful consultations occurred with Congress related to agency strategic plans and agency priority goals.

United States Government Accountability Office

Chairman Issa, Ranking Member Cummings, and Members of the Committee:

I appreciate the opportunity to be here today to discuss our reports on the U.S. government's consolidated financial statements for fiscal years 2012 and 2011,¹ and on the federal government's progress in implementing the GPRA Modernization Act of 2010 (GPRAMA or the act).² The federal government is one of the world's largest and most complex entities, with about \$3.5 trillion in outlays in fiscal year 2012, funding an extensive array of programs and operations. Moreover, it faces a number of significant fiscal, financial management, and performance management challenges in responding to the diverse and increasingly complex issues it seeks to address.

To operate as effectively and efficiently as possible and to make difficult decisions to address the federal government's management and fiscal challenges, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and programs and for government as a whole. The government has made important progress since the enactment of key federal financial management reforms in the 1990s and continues to address significant financial management and long-term fiscal challenges. The act, which updated the Government Performance and Results Act of 1993 (GPRA),³ was intended to help increase the use of performance information in government and to take a more crosscutting and integrated perspective on performance management. However, our reports on the U.S. government's consolidated financial statements and on the implementation of the act illustrate that further improvements to federal financial and performance management are urgently needed. I would like to commend you, Mr.

¹The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to annually submit audited financial statements for the U.S. government to the President and Congress. GAO is required to audit these financial statements. The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with the financial statements prepared for fiscal year 1997. 31 U.S.C. 331(e). The federal government has elected to include certain financial information on the legislative and judicial branches in the consolidated financial statements as well.

²Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

³Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

Chairman, and this committee, for holding this oversight hearing on these important subjects. Congressional oversight is critical to assuring continued progress.

This testimony is based on several reports issued in 2013. In January 2013, we issued our report on the results of our audit of the U.S. government's fiscal years 2012 and 2011 consolidated financial statements, which along with the financial statements, are contained in the fiscal year 2012 *Financial Report of the United States Government (Financial Report)*.⁴ We performed sufficient audit work to provide our report on the consolidated financial statements, internal control, and compliance with selected provisions of laws and regulations. We conducted our audit in accordance with U.S. generally accepted government auditing standards. Our audit report would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal entities.

The act includes provisions requiring us to review its implementation at several critical junctures.⁵ In June 2013, we issued a report highlighting the key findings from several reports issued over the past 2 years covering the executive branch's implementation of key provisions of the act and how the executive branch can more fully implement and leverage the act to address pressing governance challenges.⁶ The report also included the results of our most recent survey of federal managers on the implementation of key performance management practices across

⁴GAO, *Financial Audit: U.S. Government's Fiscal Years 2012 and 2011 Consolidated Financial Statements*, GAO-13-271R (Washington, D.C.: Jan. 17, 2013). The *Financial Report* is available through the Department of the Treasury at <http://www.fms.treas.gov/fmr/index.html>. Also, see GAO, *Understanding the Primary Components of the Annual Financial Report of the United States Government*, GAO-09-946SP (Washington, D.C.: September 2009).

⁵For more information on our reports reviewing initial implementation of the act, see GAO, *Managing for Results: Executive Branch Should More Fully Implement the GPRA Modernization Act to Address Pressing Governance Challenges*, GAO-13-518 (Washington, D.C.: June 26, 2013). For more details on the scope and methodology for this work, see app. I of GAO-13-518.

⁶See GAO-13-518. For the full results of our 2013 survey, see GAO, *Managing for Results: 2013 Federal Managers Survey on Organization Performance and Management Issues, an E-Supplement to GAO-13-518*, GAO-13-519SP (Washington, D.C.: June 2013).

government—the fifth such survey we have undertaken since 1997. In addition to the survey, we reviewed the act, related Office of Management and Budget (OMB) guidance, and our past and recent work related to federal performance management and the act, as well as interviewed OMB staff. Based, in part, on some of the results of our federal managers' survey, we also issued a report in June 2013 on strategies to facilitate agencies' use of program evaluations.⁷ In addition to the survey, we interviewed OMB staff and evaluators at five agencies within the Departments of Agriculture, Health and Human Services, and Labor selected for their evaluation experience. We conducted our performance audits in accordance with generally accepted government auditing standards.

**Results of Our Audit
of the U.S.
Government's
Consolidated
Financial Statements
for Fiscal Years 2012
and 2011**

The federal government was unable to demonstrate the reliability of significant portions of its accrual-based consolidated financial statements for fiscal years 2012 and 2011, principally resulting from limitations related to certain material weaknesses in internal control over financial reporting.⁸ For example, about 34 percent of the federal government's reported total assets as of September 30, 2012, and approximately 21 percent of the federal government's reported net cost for fiscal year 2012, relate to the Department of Defense (DOD), which received a disclaimer of opinion on its consolidated financial statements. As a result, we were unable to provide an opinion on the accrual-based consolidated financial statements of the U.S. government. Further, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2012, 2011, and 2010 Statements of Social Insurance,⁹ prevented us from expressing opinions on those

⁷GAO, *Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation in Program Management and Policy Making*, GAO-13-570 (Washington, D.C.: June 26, 2013). For more details on the scope and methodology for this work, see app. I of GAO-13-570.

⁸A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁹These uncertainties are discussed in Note 26 to the consolidated financial statements.

statements,¹⁰ as well as on the 2012 and 2011 Statements of Changes in Social Insurance Amounts. Given the importance of social insurance programs, such as Medicare and Social Security to the federal government's long-term fiscal outlook, the Statement of Social Insurance is critical to understanding the federal government's financial condition and fiscal sustainability.

The federal government did not maintain adequate systems or have sufficient, reliable evidence to support certain material information reported in the U.S. government's accrual-based consolidated financial statements. The underlying long-standing material weaknesses in internal control contributed to our disclaimers of opinion on the U.S. government's accrual-based consolidated financial statements for the fiscal years ended September 30, 2012 and 2011.¹¹ Specifically, these weaknesses concerned the federal government's inability to

- satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by DOD, were properly reported in the accrual-based consolidated financial statements;
- reasonably estimate or adequately support the amounts reported for certain liabilities, such as environmental and disposal liabilities, or determine whether commitments and contingencies were complete and properly reported;
- support significant portions of the reported total net cost of operations, most notably related to DOD, and adequately reconcile disbursement activity at certain federal entities;
- adequately account for and reconcile intragovernmental activity and balances between federal entities;
- ensure that the federal government's accrual-based consolidated financial statements were (1) consistent with the underlying audited

¹⁰We expressed unqualified opinions on the 2009 and 2008 Statements of Social Insurance.

¹¹A more detailed description of the material weaknesses that contributed to our disclaimer of opinion, including the primary effects of these material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations, can be found on pages 237 through 242 of the *Financial Report*.

entities' financial statements, (2) properly balanced, and (3) in conformity with U.S. generally accepted accounting principles (U.S. GAAP); and

- identify and either resolve or explain material differences between (1) components of the budget deficit that are used to prepare certain information in the consolidated financial statements and (2) related amounts reported in federal entities' financial statements and underlying financial information and records.

These material weaknesses continued to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost as well as the financial and nonfinancial performance of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable financial information to operate in an efficient and effective manner.

We also reported certain other material weaknesses,¹² including the federal government's inability to (1) determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce improper payments,¹³ and (2) identify and resolve information security control deficiencies and manage information security risks on an ongoing basis.

Since the enactment of key financial management reforms in the 1990s, important progress has been made improving financial management activities and practices. For fiscal year 2012, 21 of 24 Chief Financial Officers (CFO) Act agencies were able to attain unqualified audit opinions on their accrual-based financial statements, up from 6 CFO Act agencies for fiscal year 1996.¹⁴ Also, for the first time, the Department of Homeland

¹²A more detailed discussion of these weaknesses, including the primary effects of the material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations, can be found on pages 243 through 245 of the *Financial Report*.

¹³Federal entities reported estimates of improper payment amounts that totaled \$107.7 billion for fiscal year 2012, which represented approximately 4.4 percent of about \$2.5 trillion of reported outlays for the associated programs.

¹⁴See app. I for the fiscal year 2012 audit results for the 24 CFO Act Agencies.

Security (DHS) was able to obtain a qualified audit opinion on its department-wide financial statements—a significant achievement for DHS. Further, the preparation and audit of financial statements have identified numerous deficiencies, leading to actions to strengthen controls and systems. However, many of the CFO Act agencies continue to struggle with financial systems that do not meet the needs of management for reliable, useful, and timely financial information.

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to lead to system improvements that would result in CFO Act agency managers routinely having access to reliable, useful, and timely financial-related information with which to measure performance and increase accountability throughout the year.¹⁵ FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's *U.S. Standard General Ledger* at the transaction level.

For both fiscal years 2012 and 2011, auditors for 11 of the 24 CFO Act agencies reported that the agencies' financial management systems did not substantially comply with one or more of the three FFMIA requirements. Often, federal entities expend major time, effort, and resources to develop financial information that their systems should be able to provide on a daily or recurring basis. Therefore, it is important for the individual federal entities to remain committed to maintaining the progress that has been achieved in obtaining positive audit results and to build upon that progress to make needed improvements in federal financial management systems.

Addressing Impediments
to an Opinion on the
Accrual-Based
Consolidated Financial
Statements

Three long-standing major impediments continued to prevent us from expressing an opinion on the U.S. government's accrual-based consolidated financial statements: (1) serious financial management problems at DOD, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances

¹⁵FFMIA, which is reprinted in 31 U.S.C. 3512 note.

Improving Financial
Management at DOD

between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.

DOD continues to work toward the long-term goal of improving financial management and full financial statement auditability. The National Defense Authorization Act (NDAA) for Fiscal Year 2010 requires that DOD's Financial Improvement and Audit Readiness (FIAR) Plan set as its goal that the department's financial statements be validated as ready for audit by September 30, 2017.¹⁶ In addition, the NDAA for Fiscal Year 2013 requires that the FIAR Plan also describe specific actions to be taken and the cost associated with ensuring that DOD's Statement of Budgetary Resources (SBR) is validated as ready for audit by September 30, 2014.¹⁷ DOD's FIAR Plan and semiannual status reports define the activities, corrective actions, and interim milestones the department has deemed necessary to achieve auditability and the availability of reliable, useful, and timely information for management decision making. Under its FIAR Plan, DOD is focusing on improving controls, systems, and processes relied on to provide financial information in two areas that are critical to managing its operations: (1) budgetary information and (2) accountability over its mission-critical assets.

Based on difficulties encountered in auditing the SBR of the Marine Corps, in August 2012, DOD's FIAR Governance Board approved a significant change to the FIAR methodology that will limit the scope of first-year SBR audits for all DOD components. As outlined in the March 2013 revised FIAR Guidance, the scope of the SBR audits beginning in fiscal year 2015 will be on budget activity only in the current-year appropriations as an interim step toward achieving an audit of the SBR. In subsequent years, the components will commence audits of schedules of both current-year and prior-year audited appropriations and all related activity against those appropriated funds.

¹⁶Pub. L. No. 111-84, § 1003(a)(2)(A)(ii), 123 Stat. 2190, 2440 (Oct. 28, 2009) (reprinted in 10 U.S.C. § 2222 note). Prior to enactment of this law, DOD had been using the September 30, 2017 date as its internal goal since 2008.

¹⁷NDAA for Fiscal Year 2013, Pub. L. No. 112-239, § 1005(a), 126 Stat. 1632, 1904 (Jan. 2, 2013) (reprinted in 10 U.S.C. § 2222 note).

While DOD has made efforts to improve its financial management, we found significant internal control, financial management, and systems deficiencies in DOD's processes and procedures for maintaining accountability for billions of dollars in funds and other resources. For example, we found that

- the Army and the Defense Finance and Accounting Service (DFAS) could not readily identify the full population of payroll accounts associated with the Army's \$46 billion active duty military payroll because of deficiencies in existing procedures and nonintegrated personnel and payroll systems,¹⁸
- DFAS could not detect and correct all errors in active duty military payroll disbursements because of deficiencies in its processes,¹⁹
- DOD's improper payment estimates reported in its fiscal year 2011 *Agency Financial Report* were neither reliable nor statistically valid because of long-standing and pervasive financial management weaknesses and significant deficiencies in the department's procedures related to estimating improper payments,²⁰ and
- DOD continues to encounter difficulties in implementing its planned Enterprise Resource Planning (ERP) systems on schedule and within budget,²¹ due to significant operational problems and significant delays in deploying key ERP systems.²²

¹⁸GAO, *DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay*, GAO-12-406 (Washington, D.C.: Mar. 22, 2012).

¹⁹GAO, *DOD Financial Management: Actions Needed to Address Deficiencies in Controls over Army Active Duty Military Payroll*, GAO-13-28 (Washington, D.C.: Dec. 12, 2012).

²⁰GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, GAO-13-227 (Washington, D.C.: May 13, 2013).

²¹The effective implementation of ERP systems will be critical to the success of all of DOD's planned long-term financial improvement efforts. ERP systems are integrated, multifunction systems that perform business-related tasks such as general ledger accounting and supply chain management. DOD considers their implementation essential to transforming its business operations and achieving its goals of audit readiness by fiscal year 2017.

²²GAO, *DOD Financial Management: Implementation Weaknesses in Army and Air Force Business Systems Could Jeopardize DOD's Auditability Goals*, GAO-12-134 (Washington, D.C.: Feb. 28, 2012).

Reconciling Intragovernmental Activity and Balances

We have made numerous recommendations to DOD to address these financial management issues. While we are encouraged by DOD's sustained commitment to improving financial management and achieving audit readiness, several DOD business practices, including financial management, remain on GAO's list of high-risk programs.²³ DOD faces considerable challenges and has much work to do if it is to meet its audit readiness goals. DOD's continued oversight and monitoring will play a key role in ensuring that the FIAR Plan is implemented as intended, and lessons learned are identified and effectively disseminated and addressed.²⁴ While DOD's May 2013 FIAR Plan status report reiterated the department's commitment to achieving its audit readiness goals, it noted that absent a stable budget environment, DOD's efforts were subject to increased risk. Continued congressional oversight of DOD's financial management improvement efforts will be critical to helping ensure DOD achieves its audit readiness goals. To assist Congress in its oversight efforts, we will continue to monitor DOD's progress and provide feedback on the status of its financial management improvement efforts.

Since the first audit of the U.S. government's fiscal year 1997 consolidated financial statements, we have reported a material weakness related to the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, as well as between federal entities and the General Fund.²⁵ When preparing the consolidated financial statements, intragovernmental activity and balances between federal entities and between federal entities and the General Fund should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, resulting in errors in the consolidated financial statements.

²³GAO, *High-Risk Series: An Update*, GAO-13-283 (Washington, D.C.: Feb. 14, 2013).

²⁴GAO, *DOD Financial Management: Challenges in Attaining Audit Readiness and Improving Business Processes and Systems*, GAO-12-642T (Washington, D.C.: Apr. 18, 2012).

²⁵The General Fund is a central reporting entity that tracks core activities fundamental to funding the federal government (e.g., issued budget authority, operating cash, and debt financing activities).

The Department of the Treasury (Treasury) has grouped intragovernmental activity and balances into the following five categories and is working with federal entity personnel to identify and resolve reported unreconciled differences.

- **Fiduciary activities** include investments in Treasury securities with the Bureau of the Fiscal Service (Fiscal Service);²⁶ borrowing from the Fiscal Service and the Federal Financing Bank and related interest receivable and payable, interest expense and revenue, and federal loans receivable and payable.
- **Benefit activities** include contributions by federal entities into employee benefit programs (retirement, life insurance, workers' compensation, and health benefits) administered by the Office of Personnel Management and the Department of Labor.
- **Buy/Sell activities** between federal entities include buy and sell costs and revenues, accounts receivable and payable, and advances to and from others.
- **Transfers of funds** include transfers payable and receivable, and transfers in and out without reimbursement.
- **General Fund transactions and balances** include fund balance with Treasury, appropriations received and warrants, and custodial and non-entity collections.

The federal government has made progress in reconciling intragovernmental differences and the degree of progress varies by category. However, the federal government continues to be unable to adequately account for and reconcile intragovernmental activity and balances. For fiscal year 2012, amounts reported by federal entity trading partners for certain intragovernmental accounts were not in agreement by significant amounts. OMB and Treasury require the CFOs of 35 significant federal entities to reconcile, on a quarterly basis, selected

²⁶According to Treasury officials, on October 7, 2012, the Secretary of the Treasury (1) established the Bureau of the Fiscal Service as a bureau within the Department of the Treasury, (2) consolidated and redesignated the Bureau of the Public Debt and the Financial Management Service as the Bureau of the Fiscal Service, and (3) transferred the duties of the Bureau of the Public Debt and Financial Management Service commissioners to the Commissioner of the Bureau of the Fiscal Service.

intragovernmental activity and balances with their trading partners. As in prior years, a substantial number of the entities did not adequately perform the required year-end reconciliations for fiscal year 2012. Further, there continue to be hundreds of billions of dollars of unreconciled differences between the General Fund of the U.S. government and federal entity trading partners related to appropriations and other intragovernmental transactions. Currently, federal entities report their activity with the General Fund; however, the General Fund activity is not centrally reported, and therefore, a process does not exist for entities to confirm and reconcile all of their activity and balances with the General Fund. As a result of these circumstances, the federal government's ability to determine the impact of the unreconciled differences between trading partners on the amounts reported in the accrual-based consolidated financial statements is significantly impaired.

Over the years, we have made several recommendations to Treasury to address these issues. Treasury has taken or plans to take actions to address these recommendations. During fiscal year 2012, Treasury expanded its ongoing efforts to help resolve and eliminate material differences in intragovernmental activity and balances. These efforts included developing and implementing a formalized resolution plan and related corrective actions intended to address long-standing intragovernmental challenges. As part of its plan, Treasury monitors entities' reconciliation efforts and compliance with *Treasury Financial Manual* guidance. For example, in fiscal year 2012, Treasury began a pilot program with 14 entities that included providing them with quarterly metrics and scorecards highlighting differences requiring attention. In fiscal year 2013, Treasury expanded the distribution of the quarterly metrics and scorecards to include all 35 significant entities. Further, Treasury is in the process of establishing separate reporting for the General Fund, which includes intragovernmental transactions. Resolving the intragovernmental transactions problem remains a difficult challenge and will require a strong and sustained commitment by federal entities to timely resolve differences with their trading partners, as well as continued strong leadership by Treasury and OMB.

Preparing the Consolidated
Financial Statements

Treasury, in coordination with OMB, implemented corrective actions during fiscal year 2012 to address certain internal control deficiencies detailed in our previously issued reports regarding the process for preparing the consolidated financial statements, including obtaining and utilizing certain interim financial information from federal entities in preparing initial consolidated financial statement drafts and supplementing staff during the financial report preparation process.

Treasury also began to develop a methodology to reconcile the budget deficit to the consolidated financial statements. Nevertheless, the federal government continued to have inadequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in conformity with U.S. GAAP.²⁷ For example:

- Treasury's process did not ensure that the information in three of the accrual-based consolidated financial statements (Statement of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Unified Budget Deficit, and Statement of Changes in Cash Balance from Unified Budget and Other Activities) was fully consistent with the underlying information in the 35 significant federal entities' audited financial statements and other financial data.
- Treasury is unable to properly balance the accrual-based consolidated financial statements. To make the fiscal years 2012 and 2011 consolidated financial statements balance, Treasury recorded net increases of \$20.2 billion and \$15.6 billion, respectively, to net operating cost on the Statement of Operations and Changes in Net Position, which were identified as "Unmatched transactions and balances."²⁸ Treasury recorded an additional net \$1.8 billion and \$6.0 billion of unmatched transactions in the Statement of Net Cost for fiscal years 2012 and 2011, respectively. The material weakness in federal entities' ability to account for and reconcile intragovernmental activity and balances, discussed above, significantly contributes to the unmatched transactions and balances and consequently impairs Treasury's ability to fully eliminate such intragovernmental activity and balances.

²⁷Most of the issues we identified in fiscal year 2012 existed in fiscal year 2011, and many have existed for a number of years. Most recently, in June 2013, we reported the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Preparation of the U.S. Consolidated Financial Statements*, GAO-13-540 (Washington, D.C.: June 28, 2013). A detailed discussion of control deficiencies regarding the process for preparing the consolidated financial statements can be found on pages 239 through 241 of the *Financial Report*.

²⁸Although Treasury was unable to determine how much of the unmatched transactions and balances, if any, relates to net operating cost, it reported this amount as a component of net operating cost in the consolidated financial statements.

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- Treasury's reporting of certain financial information required by U.S. GAAP continues to be impaired and will remain so until federal entities, such as DOD, can provide Treasury with complete and reliable information required to be reported in the consolidated financial statements.

Resolving these internal control deficiencies remains a difficult challenge and will require a strong and sustained commitment from Treasury and OMB as they continue to execute and implement their corrective action plans.

Significant Uncertainties Result in Disclaimers of Opinion on the 2012, 2011, and 2010 Statements of Social Insurance, as Well as on the 2012 and 2011 Statements of Changes in Social Insurance Amounts

Significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2012, 2011, and 2010 Statements of Social Insurance, prevented us from expressing opinions on the 2012, 2011, and 2010 Statements of Social Insurance, as well as on the 2012 and 2011 Statements of Changes in Social Insurance Amounts.²⁹ The Statement of Social Insurance presents the actuarial present value of the federal government's estimated future revenue to be received from or on behalf of participants and estimated future expenditures to be paid to or on behalf of participants, based on benefit formulas in current law and using a projection period sufficient to illustrate the long-term sustainability of the social insurance programs.³⁰

These significant uncertainties include the following:

- Medicare projections in the 2012, 2011, and 2010 Statements of Social Insurance were based on benefit formulas in current law and included a significant decrease in projected Medicare costs from the 2009 Statement of Social Insurance related to (1) reductions in Medicare payment rates for physician services (totaling almost 31 percent in January 2013, as estimated in the *2012 Medicare Trustees*

²⁹About \$27.2 trillion, or 70.5 percent, of the federal government's reported total present value of future expenditures in excess of future revenue presented in the 2012 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' 2012 Statement of Social Insurance, which received a disclaimer of opinion.

³⁰The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. For the Black Lung program, the projections are through September 30, 2040.

Report)³¹ and (2) productivity improvements for most other categories of Medicare providers, based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (PPACA).³² However, there are significant uncertainties concerning the achievement of these projected decreases in Medicare costs.

- As discussed in note 26 in the *Financial Report*, actual future costs for Medicare are likely to exceed those shown by the current-law projections presented in the 2012, 2011, and 2010 Statements of Social Insurance due, for example, to the likelihood of modifications to the scheduled reductions in Medicare payment rates for physician services.³³ The extent to which actual future costs exceed the projected current-law amounts due to changes to the scheduled reductions in Medicare payment rates for physician services and productivity adjustments depends on both the specific changes that might be legislated and whether such legislation would include further provisions to help offset such costs.
- The *Financial Report* includes an illustrative alternative projection that is intended to provide additional context regarding the long-term sustainability of the Medicare program and to illustrate the uncertainties in the Statement of Social Insurance projections. The present value of future estimated expenditures in excess of future estimated revenue for Medicare, included in the illustrative alternative projection, exceeds the \$27.2 trillion estimate in the 2012 Statement of Social Insurance by \$10.1 trillion.

Projections of Medicare costs are sensitive to assumptions about future decisions by policymakers and about the behavioral responses of consumers, employers, and health care providers as policy, incentives,

³¹Subsequent to our audit, the 2013 *Medicare Trustees Report* was issued on May 31, 2013.

³²PPACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010).

³³Statutes have been enacted with provisions that prevented scheduled reductions in Medicare payment rates for physician services from taking effect from 2003 through 2013, including the most recent provision enacted in the American Taxpayer Relief Act of 2012 (ATRA), Pub. L. No. 112-240, § 601, 126 Stat. 2313, 2345 (Jan. 2, 2013). Some of these statutes also included provisions that reduced the federal government's spending on other categories of health care, which had the effect of helping to offset the increased costs related to the physician payment updates.

and the health care sector change over time. Such secondary impacts are not fully reflected in the Statement of Social Insurance projections but could be expected to influence the excess cost growth rate used in the projections.³⁴ Key drivers of uncertainty about the excess cost growth rate include the future development and deployment of medical technology, the evolution of personal income, and the cost and availability of insurance, as well as federal policy changes, such as the implementation of PPACA. Both the Statement of Social Insurance projections and the illustrative alternative estimate summarized in Note 26 in the *Financial Report* indicate that the Social Security and Medicare programs are not sustainable under current financing arrangements.

Long-Term Fiscal Challenges

The 2012 *Financial Report* includes comprehensive fiscal projections for the U.S. government that, consistent with GAO simulations, show that without changes in current policy, the federal government continues to face an unsustainable long-term fiscal path.³⁵ Such reporting provides a much needed perspective on the federal government's long-term fiscal position and outlook. The projections included in the *Financial Report* and our simulations both continue to highlight the need to focus attention not only on the federal government's near-term budget outlook but also on its longer-term fiscal path. In the near term, deficits are expected to continue to decline from the recent historic highs as the economy recovers and actions taken by Congress and the President begin to take effect. Debt held by the public as a share of gross domestic product (GDP), however, remains well above historical averages. Debt held by the public at these high levels could limit the federal government's flexibility to address emerging issues and unforeseen challenges such as another economic downturn or large-scale natural disaster.

³⁴The excess cost growth rate is the increase in health care spending per person relative to the growth of gross domestic product per person after removing the effects of demographic changes on health care spending.

³⁵GAO, *The Federal Government's Long-Term Fiscal Outlook, Spring 2013 Update*, GAO-13-481SP (Washington, D.C.: Apr. 11, 2013), and *The Federal Government's Long-Term Fiscal Outlook: Fall 2012 Update*, GAO-13-148SP (Washington, D.C.: Dec. 3, 2012). The key difference between these two is that the Spring 2013 update reflects the enactment of ATRA, which among other changes, modified the 2013 and 2014 discretionary spending limits, permanently extended many of the tax provisions that were previously set to expire under current law and limited the reach of the Alternative Minimum Tax. The overall effects of ATRA on the longer-term outlook under GAO's alternative simulation are relatively small.

Both the projections in the *Financial Report* and our long-term simulations reflect enactment of the Budget Control Act of 2011 (BCA).³⁶ BCA set limits on discretionary spending for fiscal years 2012 through 2021. Under the enacted discretionary spending limits, discretionary spending as a share of the economy in 2021 would be lower than any level seen in the last 50 years. Even with the reductions from BCA, the government continues to face a significant structural imbalance between revenues and spending, driven on the spending side largely by the aging of the population and rising health care costs. Changing this path will not be easy, and it will likely require difficult decisions affecting both federal spending and revenue. Significant action to change the long-term path must be taken soon to minimize the risk that eventual policy changes will be disruptive to individuals and the economy, while also taking into account concerns about near-term economic growth.

The Executive Branch Needs to More Fully Implement the GPRA Modernization Act to Address Pressing Governance Challenges

As we reported in June 2013, the executive branch has taken a number of steps to implement key provisions of the GPRA Modernization Act of 2010 (the act). OMB has developed interim cross-agency priority goals, and agencies developed agency-specific priority goals.³⁷ Agency officials reported that their agencies have assigned performance management leadership roles and responsibilities to officials, such as performance improvement officers, who generally participate in performance management activities, including data-driven quarterly performance reviews. Further, OMB developed Performance.gov, a government-wide website, which provides quarterly updates on the cross-agency priority goals and agency priority goals. The Performance Improvement Council, which consists of agency performance improvement officers, has also taken steps to facilitate the exchange of useful practices and tips and tools to strengthen agency performance management. Nevertheless, our work has shown that the executive branch needs to do more to fully implement and leverage the act's provisions to address governance challenges.

³⁶The Budget Control Act of 2011, Pub. L. No. 112-25, § 302, 125 Stat. 240, 256-59 (Aug. 2, 2011), *classified, as amended, in 2 U.S.C. § 901a*.

³⁷GAO-13-518.

OMB and Agencies Have
Made Some Progress
Addressing Crosscutting
Issues but Are Missing
Additional Opportunities

Many of the meaningful results that the federal government seeks to achieve, such as those related to protecting food and agriculture and providing homeland security, require the coordinated efforts of more than one federal agency, level of government, or sector. For almost two decades we have reported on agencies' missed opportunities for improved collaboration through the effective implementation of GPRA. Under the act, OMB and agencies have identified many programs and activities that contribute to goals, as required, but our recent work continues to show that they are missing additional opportunities to address crosscutting issues. While agencies have implemented some of the act's provisions, their efforts have not included all of the relevant agency, program, and other contributors. For example, few have identified tax expenditures, which represent about \$1 trillion in foregone revenue in fiscal year 2012, due to a lack of OMB guidance and oversight. Therefore, the contributions made by tax expenditures toward broader federal outcomes are unknown. In June 2013, we recommended that OMB take several actions to ensure that the contributions of tax expenditures to crosscutting and agency goals are identified and assessed.³⁸ OMB staff agreed with these recommendations.

In addition, agencies are not consistently including all relevant stakeholders as they implement key provisions of the act in the following areas:

- **Cross-agency priority goals:** In May 2012, we identified additional agencies that should be named as contributors for 10 of the 14 interim cross-agency priority goals.³⁹
- **Agency priority goals:** In April 2013, we found that agencies identified contributors within the agency for each agency priority goal, but did not identify external contributors for 29 of the 102 agency priority goals we reviewed. In some cases, the goals seem to be internally focused, but in other cases, our work has shown that there are external contributors that were not listed.⁴⁰

³⁸GAO-13-518.

³⁹GAO, *Managing for Results: GAO's Work Related to the Interim Crosscutting Priority Goals under the GPRA Modernization Act*, GAO-12-620R (Washington, D.C.: May 31, 2012).

⁴⁰GAO, *Managing for Results: Agencies Should More Fully Develop Priority Goals under the GPRA Modernization Act*, GAO-13-174 (Washington, D.C.: Apr. 19, 2013).

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- **Quarterly performance reviews:** In February 2013, we reported that while we found that quarterly performance reviews have shown promise in improving internal agency coordination and collaboration, few agency performance improvement officers reported that they were using the reviews to coordinate or collaborate with other agencies that have similar goals.⁴¹

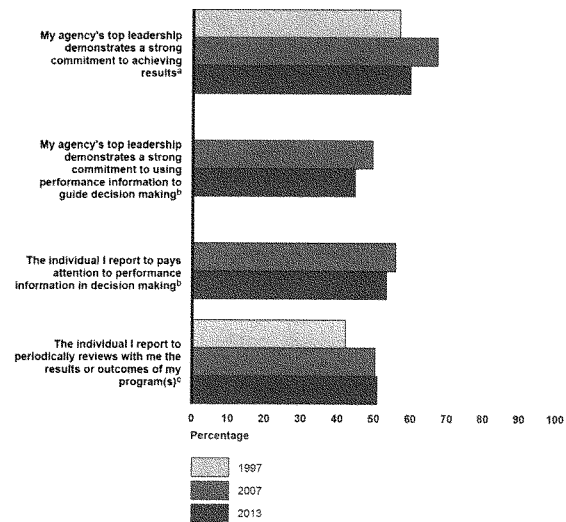
We made recommendations to the Director of OMB to address each of these areas. OMB staff agreed with these recommendations.

Ensuring Performance Information Is Useful and Used by Managers to Improve Results Remains a Weakness, but Key Performance Management Practices Hold Promise

As we reported in June 2013, we found little improvement in federal managers' reported use of performance information or practices that could help promote its use, based on our periodic government-wide surveys of federal managers since 1997. In particular, as figure 1 illustrates, the results from our 2013 managers survey show almost no statistically significant changes in managers' perceptions of their leaders' and supervisors' attention and commitment to use of performance information since our last survey in 2007—with the exception of a decline in the percentage of managers who agreed to a great or very great extent that their agencies' top leadership demonstrates a strong commitment to achieving results.

⁴¹GAO, *Managing for Results: Data-Driven Performance Reviews Show Promise But Agencies Should Explore How to Involve Other Relevant Agencies*, GAO-13-228 (Washington, D.C.: Feb. 27, 2013).

Figure 1: Less Than Two-Thirds of Federal Managers Agreed in 2013 to a "Great" or "Very Great" Extent with Statements about Leadership and Supervisor Commitment and Attention to Performance Information



Source: GAO.

Notes: Percentage estimates for 2013 and 2007 have 95 percent confidence intervals within +/- 4 percentage points of the estimate, and percentage estimates for 1997 have confidence intervals within +/- 6.1 percentage points of the estimate.

Some survey items were abbreviated. For the full text, see items 10g, 10h, 11a, and 12c in GAO-13-519SP.

^aStatistically significant decrease between 2007 and 2013.

^bSurvey item was introduced in 2007.

^cStatistically significant increase between 1997 and 2013.

Importantly, agencies' quarterly performance reviews show promise as a leadership strategy for improving the use of performance information in agencies. According to our 2012 survey of performance improvement officers at 24 agencies, the majority (21 out of 24 agencies required to

conduct these reviews) reported that actionable opportunities for performance improvement are identified through the reviews at least half the time.⁴² In addition, most officials we interviewed at the Department of Energy, the Department of the Treasury, and the Small Business Administration attributed improvements in performance and decision making to their performance reviews.

Building the capacity to use performance information is also critical to helping ensure that information is used in a meaningful fashion, and inadequate staff expertise, among other factors, can hinder agencies' use. Only about a third (36 percent) of federal managers reported in our 2013 survey that they agreed to a great or very great extent that their agencies have sufficient analytical tools for managers at their levels to collect, analyze, and use performance information. The act lays out specific requirements for the Office of Personnel Management (OPM) to identify skills and competencies for performance management functions, among other actions. OPM has identified competencies and relevant position classifications and taken steps to work with agencies to incorporate the key competencies into agency training. However, we reported in April 2013 that these efforts have been broad-based and not informed by specific assessments of agency training needs.⁴³ We recommended that the Director of OPM work with the Performance Improvement Council to identify competency gaps for agency performance management staff and use this information to identify and share relevant agency training. OPM agreed with these recommendations.

Our 2013 government-wide survey found that most managers also lack recent program evaluation studies—a particular form of performance information—that can identify ways to improve program efficiency and effectiveness.⁴⁴ Only 37 percent of managers reported that an evaluation had been completed in the past 5 years of any program or operation they

⁴²GAO-13-356 and GAO-13-228.

⁴³GAO-13-356.

⁴⁴GAO, *Program Evaluation: Strategies to Facilitate Agencies' Use of Evaluation in Program Management and Policy Making*, GAO-13-570 (Washington, D.C.: June 26, 2013). Program evaluations are systematic studies that use research methods to assess the achievement of a program's objectives in context, to explore the reasons for observed results and isolate program effects from other influences.

were involved in. Yet, 81 percent of the managers who had evaluations reported that evaluations contributed to a moderate or greater extent to implementing changes to improve program management or performance.

As you know, we have issued three reports outlining numerous areas of potential fragmentation, overlap and duplication in federal programs.⁴⁵ Comprehensive program evaluations that examine the coverage and effectiveness of a cluster of federal programs and policies aimed at achieving similar outcomes could be key in coordinating and streamlining programs so as to reduce duplication and overlap. In case study interviews, agency evaluators emphasized three basic strategies to facilitate evaluation influence on program management and policy making: (1) demonstrate leadership support by promoting the use of evidence and funding evaluation offices to promote and support the use of evidence; (2) build a strong body of evidence by attending to rigor in whatever methods are used; and (3) engage stakeholders throughout the evaluation process—gaining their input to planning; providing assistance, training, and incentives; and disseminating usable messages.

Agencies Have Taken
Steps to Align Daily
Operations with Agency
Results but Continue to
Face Difficulties
Measuring Performance

Agencies have established performance management systems to align individual performance with agency results. However, agencies continue to face long-standing issues with measuring performance, such as obtaining complete, timely, and accurate performance information, across various programs and activities. Given the Performance Improvement Council's responsibilities for addressing crosscutting performance issues and sharing performance improvement practices, our June 2013 report noted that it could do more to examine and address the difficulties agencies face to measuring performance across various program types,

⁴⁵GAO, 2013 *Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, GAO-13-279SP (Washington, D.C.: Apr. 9, 2013); 2012 *Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington D.C.: Feb. 28, 2012); and *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011).

such as grants and contracts.^{46,47} We recommended that OMB work with the Performance Improvement Council to develop a detailed approach for addressing these long-standing performance measurement issues. OMB staff agreed with this recommendation.

**Communication of
Performance Information
Could Better Meet Users'
Needs**

Federal managers and potential users of Performance.gov reported concerns about the accessibility, availability, understandability, and relevance of performance information to the public. Potential users include Members and committees of Congress and the public. In our June 2013 report reviewing Performance.gov, we noted that the website has the potential to increase the accessibility of performance information for users both inside and outside the federal government.⁴⁸ However, further outreach to key stakeholders could help improve how this information is communicated. We recommended in June 2013 that OMB work with the Performance Improvement Council and the General Services Administration, which are involved in the development of the website, to (1) clarify the specific ways that intended audiences could use the information on Performance.gov and (2) systematically collect information on the needs of intended audiences and collect recommended performance metrics that help identify improvements to the website. OMB staff agreed with these recommendations.

**Agency Performance
Information Is Not Always
Useful for Congressional
Decision Making**

Our work has found that the performance information that agencies provided to the Congress was not always useful for congressional decision making because the information was not clear, directly relevant, or sufficiently detailed. Consultations with Congress are intended, in part, to ensure that performance information is useful for congressional decision making. OMB and agencies are to consult with relevant committees, including this committee, about proposed goals at least once every 2 years. Specifically, OMB is to consult about the cross-agency

⁴⁶GAO-13-518.

⁴⁷We also recommended in April 2013 that the Director of OMB work with the Performance Improvement Council to gather regular feedback from its members on its performance and update its strategic plan, as appropriate. OMB staff agreed with these recommendations; see GAO-13-356.

⁴⁸GAO, *Managing for Results: Leading Practices Should Guide the Continued Development of Performance.gov*, GAO-13-517 (Washington, D.C.: June 6, 2013).

priority goals and describe on Performance.gov how congressional input was incorporated into these goals. Similarly, agencies are to consult about their strategic plans, including agency priority goals, and describe in these plans or on Performance.gov, respectively, how that input was incorporated. However, in April 2013 we found little evidence that meaningful consultations occurred related to agency strategic plans and agency priority goals.⁴⁹ We recommended that the Director of OMB ensure that agencies provide a description of how input from congressional consultations was incorporated into each priority goal. OMB staff concurred with our recommendation.

In February 2014, OMB and agencies will publish a new set of cross-agency priority goals, agency priority goals, and updated agency strategic plans. According to OMB guidance, agency consultations with Congress, including this committee, on updated strategic plans and agency priority goals should take place this summer. Similarly, OMB has stated plans to consult with this committee and other committees with broad jurisdiction on the next set of cross-agency priority goals prior to their publication. At the request of Congress, we developed a guide in June 2012 to assist Members of Congress and their staffs in ensuring that the consultations required under the act are useful for assessing agency performance.⁵⁰ The guide outlines general approaches for successful consultations and key questions that Members of Congress and congressional staffs can ask as part of the consultation process.

Closing Comments

In closing, while progress has been made, much work remains given the federal government's long-term fiscal, financial management, and performance management challenges. Congress, the administration, and federal managers need to have more reliable, useful, and timely financial and performance information to effectively meet these challenges, to make sound decisions, and to operate as efficiently and effectively as possible. Agencies must continue to strive toward routinely producing such information to help guide decision makers on a day-to-day basis. Federal entities' improvement of financial management systems will be

⁴⁹GAO-13-174.

⁵⁰GAO, *Managing for Results: A Guide for Using the GPRA Modernization Act to Help Inform Congressional Decision Making*, GAO-12-621SP (Washington, D.C.: June 15, 2012).

essential to achieve this goal for their agency and the government as a whole.

Meaningful improvement in financial and performance management will not occur without sustained commitment by executive branch leaders and managers and continued oversight by Congress. The single most important element of successful financial and performance management improvement efforts is the demonstrated commitment of top leaders. This commitment is most prominently shown through the personal involvement of leaders, especially with agency data-driven performance reviews. Demonstrating leadership support for accountability and improvement by promoting capacity building and the use of evidence is also essential in helping facilitate program evaluation use in agency program management and policy making. Similarly, Congress can play a decisive role in fostering results-oriented cultures in the federal government by using information on agency goals and asking for and using financial and performance information as it carries out its various responsibilities.

Chairman Issa, Ranking Member Cummings, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contacts

For further information regarding this testimony, please contact Robert F. Dacey, Chief Accountant, at (202) 512-3406 or daceyrf@gao.gov; Gary T. Engel, Director, Financial Management and Assurance, at (202) 512-3406 or engelg@gao.gov; or J. Christopher Mihm, Managing Director, Strategic Issues, at (202) 512-6806 or mihmj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Appendix I: Chief Financial Officers (CFO) Act Agencies: Fiscal Year 2012 Audit Results and Principal Auditors

| CFO Act agencies | Opinion expressed by agency auditor | Agency auditor-reported material weaknesses or noncompliance ^a | Principal auditor |
|--|--|---|-----------------------------------|
| Agency for International Development | ^b | √ | Office of Inspector General (OIG) |
| Agriculture | Unqualified | √ | OIG |
| Commerce | Unqualified | √ | KPMG LLP |
| Defense | Disclaimer | √ | OIG |
| Education | Unqualified | √ | Ernst & Young LLP |
| Energy | Unqualified | | KPMG LLP |
| Environmental Protection Agency | Unqualified | √ | OIG |
| General Services Administration | Unqualified | √ | KPMG LLP |
| Health and Human Services | ^c | √ | Ernst & Young LLP |
| Homeland Security | ^d | √ | KPMG LLP |
| Housing and Urban Development | Unqualified | √ | OIG |
| Interior | Unqualified | √ | KPMG LLP |
| Justice | Unqualified | | KPMG LLP |
| Labor | Unqualified | | KPMG LLP |
| National Aeronautics and Space Administration | Unqualified | | PricewaterhouseCoopers LLP |
| National Science Foundation | Unqualified | | CliftonLarsonAllen LLP |
| Nuclear Regulatory Commission | Unqualified | | CliftonLarsonAllen LLP |
| Office of Personnel Management | Unqualified | | KPMG LLP |
| Small Business Administration | Unqualified | √ | KPMG LLP |
| Social Security Administration | Unqualified | √ | Grant Thornton LLP |
| State | Unqualified | √ | Kearney & Company |
| Transportation | Unqualified | √ | KPMG LLP |
| Treasury | Unqualified | √ | KPMG LLP |
| Veterans Affairs | Unqualified | √ | CliftonLarsonAllen LLP |

Source: GAO.

^aReported noncompliance with applicable laws and regulations and/or substantial noncompliance with one or more of the Federal Financial Management Improvement Act requirements.

^bThe auditors of the U.S. Agency for International Development's (AID) fiscal year 2012 financial statements issued a qualified opinion because of the effects of a number of unsupported adjustments on AID's financial statements.

^cThe auditors expressed an unqualified opinion on the Department of Health and Human Services' fiscal year 2012 accrual-based financial statements, but were unable to express opinions on the department's 2012 Statement of Social Insurance and 2012 Statement of Changes in Social Insurance Amounts.

^dThe auditors of the Department of Homeland Security's (DHS) fiscal year 2012 financial statements issued a qualified opinion because of DHS's inability to provide sufficient evidence to support certain components of property, plant, and equipment and heritage and stewardship assets presented in the financial statements and notes.

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Chairman ISSA. Thank you.

I will recognize myself for a series of questions. In your prepared statement, one of the things, and in the briefing that we received before this hearing, one of the things that you note is that when government does business with government, Federal Government agency to agency, something that we want to encourage in a number of ways.

They actually do a very poor job of tracking that. This committee has passed previously the Data Act. It died in the Senate. Our belief is that it died in the Senate mostly because it pushed back on recipient reporting, that recipients of grants didn't really want to be held accountable. But those were, and maybe that is not completely unfair, they complained it was burdensome. But clearly, that was one of the areas that we have continued to work on to try to make it more acceptable.

But had the Data Act been passed with government systems being required to have meaningful meta data, so that in fact there is a transparency, would that have improved this government to government accounting?

Mr. DODARO. Having data standards that are included in the Data Act and regular reporting would have been very beneficial to addressing these issues. That information then can be, and should be, tied to the financial systems and the agencies and having more rigor in place. I am very supportive of the Data Act that has been put forward. I commend the committee for its role in that area. I think without legislation, it won't happen. And I think that is very important, and would be helpful in addressing these issues.

Chairman ISSA. I might note for the record that a previous OMB director now in a new job is beginning to see the benefit of that information differently than when it was his task to do it without legislation.

You mentioned the deficiencies in the government-wide website. Is part of that deficiency, in fact, that without meaningful structured data you are really not producing rich data in an automated way, but rather posting to the website as though it was an advertisement? I am not trying to belittle it, but isn't that a certain amount of what that website is, is manually grabbed information posted to try to make people aware of what is going on?

Mr. DODARO. The website, if you look at it, there is a lot of information on it, but it is hard to find exactly what you need. And it is not as searchable, for example, as the recovery.gov website. I think more effort needs to be put into making sure people understand how the public, Congress and other people want to use the information. It is not very user-friendly.

Chairman ISSA. Let me ask you a question, and you may have to go to one of your assistants. When we are looking at the 21st century, the word website versus data mineable data base available to the public, isn't there a huge difference in which a website is fine for a novice to go search and hopefully find the form they need or the information they need? Well, if we were to mandate truly data mineable bases, then companies and innovators who want to create these Apple apps and so on could in fact mine that data, that public data, and make it available in very easy format at no cost to the government?

Mr. DODARO. Exactly. I think there is great opportunity to make government data available to enhance the ability of people, researchers, companies and others, the public, to use that information. But the one thing we pointed out, whether we are looking at usaspending.gov, the Data Act or data.gov, performance.gov, is the quality of the information and the reliability and accuracy of the data. That I think is paramount. That always isn't really assured, Mr. Chairman. I think that is a real limitation.

We can make a lot of data available. But if it is not reliable and it is not accurate, it is not as helpful as possible.

Chairman ISSA. We are trying to look for examples that do work. Would one of those examples perhaps be where the FAA opened up the core data of where aircraft are within the system, so that people could track their incoming flight with apps that were made available after the fact? That is my understanding, is both weather and FAA are examples of data that has become available for independent development.

Mr. DODARO. I would have to get back to you.

Chairman ISSA. I would appreciate if you would do that for the record. I would like to the greatest extent possible for the public to understand, and we will create a link to some of those examples, if we can work with your staff.

Now, you mentioned food safety. This is the committee of oversight, but it is also the committee of reform. Some years ago, the President noted that food was controlled by multiple agencies in rather obtuse ways. If I remember right, his examples were, where salmon were swimming affected where they were under their control. And then of course, that was live. Then when you get into various foods and food groups, you could be at the FDA, Department of Agriculture, a number of others.

Should this committee consider consolidated food safety a re-organizational plan that would make food a single point of accountability, whether or not it leveraged existing agencies, so that the American people could see food safety as a single point of accountability?

Mr. DODARO. Yes.

Chairman ISSA. Thank you.

I love a great witness. For all of you here today, that is an example of a really great witness.

[Laughter.]

Chairman ISSA. My time is expiring. I mentioned in my opening statement the challenge of data accountability under the Affordable Care Act. I know that that is not the primary concern of this hearing. But for the GAO, is this not by definition next year's high risk, the fact that in 70 days, we theoretically will implement the Affordable Care Act, and at that point, this IRS data and a confluence of other information to exchanges not even yet up and running, and in some cases not defined, will become law?

Mr. DODARO. That is an area we are definitely going to focus on. I have been concerned. In fact, we have computer security as a government-wide high risk area. And we have focused on that for a time. We have looked at the exchanges. Some of them are going to have difficulties making sure they are established on time, which

leads you to believe they may be taking shortcuts to be able to get up and running on time.

So I think it definitely has all the characteristics of a potential high risk situation.

Chairman ISSA. Thank you. My time is expired. I recognize the ranking member.

Mr. CUMMINGS. Thank you very much.

I just want to follow up on what the chairman was just asking Mr. Dodaro. Tell me what form, tell me how that has come about that you are looking at the Affordable Care Act. Tell me what form that is taking. Do you follow me? I just want to know how that course of action started and what you are looking at.

Mr. DODARO. Right. We have been asked to look at a number of areas on implementation of the Affordable Care Act. For example, we were asked by the Congress to look at the status of exchanges that were set up either by the States who were going to run the exchanges, or the Federal Government's actions to set up exchanges for that, both for the general public, also for small businesses as well. We have issued a series of reports on those areas.

We have looked at some of the initial implementation issues at the IRS, and I would ask Mr. Mihm to come up and explain a little bit about what we are doing there. But we are going to be doing a little bit more work on this in the future.

Mr. CUMMINGS. Mr. Mihm, would you tell us what kind of guidance, if any, you are giving to any agencies with regard to the Affordable Care Act?

Mr. MIHM. Yes, sir. The primary areas that we have been focused on in regards to IRS has been the extent to which they have been using a disciplined approach to risk management in understanding the risks that they face in order to implement their responsibilities under the Affordable Care Act, whether or not they have identified those risks, have risk mitigation plans in place, the right set of leadership structure on that. We made a series of recommendations to them about how they needed to strengthen that, and in particular how they needed to work better with HHS.

Now, this was a year and a half, two years ago. We need to follow up on that work again and go back and make sure that the recommendations that we had have been effectively implemented. But the last time that we looked, which would be about six months ago that they were making progress in those areas of understanding at least how they needed to manage risk in that regard.

Mr. CUMMINGS. And so when do you all plan to follow up to see whether they have been implementing those things? In other words, the status of your suggestions or recommendations?

Mr. MIHM. We have routine requirements in GAO that we have to follow up periodically on them. Obviously, given the interest of this committee we will make sure that it is the very highest priority.

Mr. CUMMINGS. Very well.

Mr. DODARO. We have had, Mr. Chairman, if I might elaborate a little bit further, we had a number of mandates in the actual Patient Protection and Affordable Care Act for us to do certain work. I would be happy to provide a complete listing to this committee

of the work that we have done so far, and what our plans are going forward.

Mr. CUMMINGS. I would appreciate that.

Now, Mr. Dodaro, as your report notes, the Defense Department is responsible for more than half of the government's discretionary spending, but it has never been able to produce a reliable financial statement. Twenty years ago, in 1993, GAO issued a report with the following conclusion: "In our opinion, efforts to address deficiencies and improve financial management have been slow with DOD."

Four years later, in 1997, GAO issued a similar report that said this: "Longstanding serious weaknesses in the Department's financial operations continue not only to severely limit the reliability of DOD's financial information, but also have resulted in wasted resources and undermined the Department's ability to carry out its stewardship and responsibilities."

Another four years later, in 2001, GAO examined DOD's plan for reliable financial statements and said this: "This plan presents the military services and DOD's components stovepiped approaches to information and financial management and does not clearly articulate how these various efforts will collectively result in an integrated DOD-wide financial management system."

Yet another four years later, in 2005, GAO said this: "To date, tangible evidence of improvement has been seen in a few specific areas. DOD is still in the very early stages of a department-wide reform that will take years to accomplish."

You see the pattern.

Mr. DODARO. I have seen it first-hand.

Mr. CUMMINGS. Yes. Here we are in 2013, and you are still telling us again the DOD still cannot get a clean audit. Why is that? I kind of think the American people would be shocked that we can't get that done. What seems to be the problem? Is it a matter of will? Is it too big to account for? What is it?

Mr. DODARO. There are several different factors that we have observed. We have had it on our high risk list since 1995, DOD financial management.

Mr. CUMMINGS. So it is getting ready to reach its 20th anniversary.

Mr. DODARO. Yes. There are a couple of issues. One, they operated for many years, and decades, without a requirement to produce audited financial statements. The first requirement that was ever in effect was for fiscal year 1996, across the Federal Government. So they operated many years, so their systems were developed and still are in existence that aren't able to communicate with one another, they don't have common data standards across the department, et cetera. So you have a huge enterprise that has operated without fiscal discipline for many, many years.

Secondly, right after the Act was passed, I don't think that their commitment was anywhere near as strong as it was today. I think the Congress has become increasingly concerned, and now has mandated that they be auditable by 2017, and their statement of budgetary resources by 2014. So Congress has gotten more involved, but it needs to stay more involved in these efforts. They finally have a good plan, they are focusing on budget data right now.

I think originally the department managers didn't believe they needed audited financial data in order to carry out their responsibilities. So right now, they have focused on budget information, which everybody agrees they need and should have, and the existence and completeness of assets, which they need to carry out their mission.

So I am hopeful this will produce the results. But they have very serious problems. And it is not going to happen overnight. It won't happen without continued focus.

Mr. CUMMINGS. To the chairman's credit, and to the credit of this committee, we have constantly tried to concentrate on efficiency and effectiveness. I am just trying to figure out, how bad a problem is it? In other words, is it such a crucial issue that we may be losing billions of dollars and not even know it?

Mr. DODARO. Yes. It is a very serious problem. I think it undermines not only accountability, but the ability to operate efficiently and effectively. There is reportedly about a third of the Federal Government's assets that are at the Department of Defense.

Mr. CUMMINGS. So if we were to accomplish anything that would be a part of our legacy of being in Congress, if we got that done, that would be major?

Mr. DODARO. Exactly. I am trying to do my part to get it done before my tenure ends. I think it is one of the most important things that we could collectively do.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Chairman ISSA. For the record, Gene, you have what, over eight years left?

Mr. DODARO. I have twelve. Twelve and change.

Chairman ISSA. It is not that optimistic.

Mr. DODARO. I know. I know. But I am being realistic, given the track record. I said before, I didn't say at the very end.

[Laughter.]

Chairman ISSA. Well before, we would like to hear.

But for the record, the ranking member did repeatedly say that the Department of Defense is the largest discretionary. But actually, isn't it true, it is the third largest spender compared to Health and Human Services and Social Security? If you compare Medicare and Medicaid, obviously that is larger.

And the question I want to make sure gets on the record, didn't Health and Human Services and Social Security, to a certain extent, get qualified or unqualified audits, even though they had some major gaps?

Mr. DODARO. They received an unqualified audit on their financial statements. There is a separate financial statement for social insurance.

Chairman ISSA. And they flunked big time?

Mr. DODARO. That we did not give an opinion on.

Chairman ISSA. Great.

Mr. DODARO. The uncertainty of achieving the cost estimates that are expected in the Affordable Care Act, the trustees pointed out the uncertainties, CMS actuary pointed it out, the auditors for HHS pointed it out. So it wasn't just us. And there are a lot of uncertainties there.

Chairman ISSA. Thank you. And I thank the ranking member. It is one of those areas in which we know we have to work on DOD, we also know we have to work on the entitlement oversight.

Mr. Mica?

Mr. MICA. Thank you. Welcome back, Mr. Comptroller.

Your report indicates that only a little over a third of the Federal managers have actually conducted performance evaluation of their programs. I think 37 percent, is that correct?

Mr. DODARO. That is correct. And that was in any one of their programs over a five-year period.

Mr. MICA. Well, from my perspective, having been here a while, you see these agencies, government in general, spinning out of control, not getting a decent evaluation of their performance or even their agency being auditable. We really can't perform an audit of the Federal Government or most of its agencies, isn't that also correct?

Mr. DODARO. Most of the agencies can now get an unqualified opinion. But the big ones, DOD and DHS, cannot.

Mr. MICA. The worst, you say, is DOD, one of the worst. I think the chairman referred to others that have spun out of control. The problem you have, though, is you don't get these agencies to respond. I have passed specific provisions, I know some at least three times since 2002, to get certain things done, and perform. And the agencies ignore law.

Now, we do have you, we have inspector generals, and OMB. It appears to me that we have to tie performance into some penalty or some reward. I am wondering if we should give OMB or someone, Congress obviously can't do it or doesn't do it. We are hit and miss. We get our appropriations done, this committee actually is the one who is evaluating some of that performance, because we are conducting continual oversight. But you have those that authorize programs, and then fund them.

So I am wondering if OMB might be the agency, or if you had any suggestions as to who you could get to wield a hammer and I guess withholding funds. They don't seem to, we call them in and they ignore you, you just don't get the attention.

It is surprising, too, with the military, usually the military works on commands, and they are usually one of the most responsive. But again, we are not getting their attention. Any ideas on having OMB being able to withhold funds or some penalty?

Mr. DODARO. I think OMB would be a good place to start, along with the Congress, particularly the appropriation committees.

What I think is fundamentally broken is the incentive. Right now, if you want to stop a Federal program or you want to curtail it, the onus is on those that come up with evidence to do it. There is no evidence-based approach to this. In other words, a program should have to demonstrate their having a positive effect in order to get continued funding.

Mr. MICA. Yes, that is sort of a self-evaluation, too. It is not an evaluation in comparison to how a task or responsibility could be accomplished by some other means, either the private sector or by some more efficient method.

It is my guess that we have probably done overpayments in the billions, multi-billion dollar area because of this. Would that be a correct assumption?

Mr. DODARO. Yes, well, we point out the improper payments as the material weaknesses across the Federal Government. There are four agencies with ten programs that still aren't performing.

Mr. MICA. We are looking at a multi-billion dollar—

Mr. DODARO. Well, the latest estimate was \$107.7 billion in improper payments for fiscal year 2012. That is not complete, not everybody has reported. So it is a huge problem.

Mr. MICA. It is an astounding number. And again, we have no means of bringing these agencies under control. Again, we haul them in, we question them, we put caveats and report language into appropriations language. You modify authorization and still things don't get done.

So I think we have to look at some hammer and maybe giving OMB some ability to withhold funds. That does get people's attention. They know they can mess around with Congress, because half the time we are doing CRs, and you get sort of a general, the last five or six years, you just get a general appropriation. They don't pay much attention to us. But someone has to gain control of bureaucracy that has spun out of control.

Mr. DODARO. One other suggestion I have, the Government Performance Results and Modernization Act of 2010 requires OMB now to list programs that aren't effective.

Mr. MICA. Listing is nice, but I think we need to give them some teeth to bite.

Mr. DODARO. Well, I agree, but I think it is a platform for this committee to then hold hearings and have them determine why other programs, where we have some evidence of not being effective, aren't on the list. But I agree with your fundamental issue. I am just saying there is another avenue.

Mr. MICA. Thank you.

Mr. LANKFORD. [Presiding] Thank you. Mr. Lynch?

Mr. LYNCH. Thank you, Mr. Chairman.

And to Mr. Dodaro, good to see you again. I certainly appreciate the work you are doing. We have had a chance to work together in the past, and I think you are doing the right thing at GAO. I appreciate the work of your staff as well.

Unfortunately, in this committee sometimes, and in Congress generally, the degree of oversight that we conduct as a Congress is dependent on blameworthiness. In other words, we lurch from scandal to scandal and it is the same when the Republicans are in the majority versus the Democrats, we would both hear the same thing. We seize upon issues to conduct oversight based on our ability to embarrass the other side, or if there is a President of the other party in office, then the party that has control of this committee generally goes after issues that can put that Administration in a bad light.

And so that leads me to a great concern on this issue. Because this has been so widely fumbled over Administrations for a long, long time, our ability to get this data correct and then make it transparent so that we can exercise meaningful government oversight is greatly, greatly inhibited. So I am worried, because there

is no blameworthiness here that we up here won't focus on this at all, that we will have this hearing and we will go look for some other issues that will get us headlines where this work is really meaningful and it will, if we get it right, it will greatly help us on a lot of issues across the board.

I am greatly disappointed, still, over our inability to get DOD to get their act together. It is a huge amount of our resources going to the Defense Department. And it boggles the mind that the NSA can tell me how many times Aunt Margaret calls Aunt Matilda, yet I can't get a verifiable audit from the Defense Department on how much money they are spending. It just blows my mind.

I actually think that sometimes the complexity and the pushback that we get from DOD is purposeful. They don't want us to be able to track what they are spending. I know now in this age of sequestration that they are sort of changing their attitude a little bit and coming up with some new ideas. But I would just ask you to stay on that piece, because that is a black hole right now. We cannot figure out what they are spending.

It is as important to them that we get that information as it is to the American people and to the taxpayer. Because if we assume that they are still getting barrels of money, we are going to cut. We are going to keep cutting and cutting and cutting, and we won't know when we get to the bone with the Defense Department if we continue to operate in this way. We have a sense that they are spending a lot of money and we will just keep cutting. You see that on the votes of the House, more and more members are willing to cut the Defense Department, because there is this unverifiable sense that they have huge resources there. If we continue to cut away, I think at some point we do get to the bone.

But what I want to ask you is about government oversight. We have a core responsibility here in Congress to make sure that we conduct meaningful oversight of executive operations in the bills that we pass on a regular basis. And during the sequestration, we are getting a lot of pushback, members on this committee trying to do oversight, whether it is drug interdiction coming out of Colombia, whether it is what is going on in Afghanistan, what is going on in Syria, Lebanon. Our ability to conduct oversight is being denied because of sequestration. I just want you to talk a little bit about the importance of Congress fulfilling their constitutional responsibility to conduct meaningful oversight.

Mr. DODARO. I think rigorous oversight by the Congress is of paramount importance. If you look at the history of our high risk list, which we do for this committee and the Senate, most of the areas that have come off the high risk list have come off in large part because of continued Congressional oversight. And the preparations for the last Census, there were 12 hearings that were held. I can give you many other examples.

But unless there's top attention by top officials in the executive branch and rigorous Congressional oversight, these difficult problems will not get solved. We have ample evidence of that. I am convinced of it. But it can't be just the one hearing once a year where they can just say, okay, we will go up there and sort of answer the questions one time. There has to be a sustained series of hearings with interim milestone of progress that would be assessed.

Because as you said, part of the problem with the Defense Department, they have always had long-term goals. We will get there in five years, ten years or whatever. Now the Congress has set some interim goals. And I think a series of hearings could be held on why they are not meeting the interim goals if they don't meet them. And I think that lays the groundwork for more meaningful Congressional oversight.

But unless that happens, I am not that optimistic.

Mr. LYNCH. Thank you, Gene. Thank you, Mr. Chairman. I yield back.

Mr. LANKFORD. Thank you. Mr. McHenry?

Mr. MCHENRY. Actually, I want to follow up on what Mr. Lynch asked. It is a solid line of questioning.

Now, there is a different emphasis today, we are talking more broadly on our side of the aisle on government spending and the other side of the aisle is about DOD. It is just more of an emphasis. But we all share the same concern. I think Mr. Lynch, when you talk about the wider bipartisan agreement now, but we have to look at Defense spending as well. We have to make sure every dime we spend there is appropriate and actually meeting the objective.

Now, that for a long time has been driven by your side of the aisle being adverse to Defense spending and our side of the aisle embracing it. Now, the realities are setting in; we actually need to make sure that every penny, regardless of where it is in government, is very, very well spent and not just simply honoring our commitment to Defense. I certainly appreciate and concur with you on that.

We also are on the Financial Services Committee. What we see there is with rule implementation, you don't have harmonization between the CFTC and SEC, for instance. And I would like to thank GAO for the report they produced as a mandate within the JOBS Act on the utilization of Reg A, which is the smaller dollar offering, so that businesses can raise up to \$5 million.

This was well-utilized up until maybe a decade or two ago, where companies would raise up to \$5 million, utilizing this option. And then what we found was, in 2011, you had one offering. And the SEC didn't look at this and say, hey, maybe this is the problem. We need to make sure that businesses can get the capital they need.

So the question I have for you is, do you see, and based on your experience, based on the work you put together, that Congressional oversight has led agencies to actually meet their goals?

Mr. DODARO. Oh, definitely. Yes. There are many examples of doing that. And so I think that is critical, in order to do that, either through hearings, requirements and authorization bills and appropriations bills, et cetera. Congressional oversight can bring about many constructive changes and help agencies to achieve those goals by eliminating, in some cases, barriers, by creating legislative vehicles and by strategically making good investments where the agencies need to make those investments. Absolutely.

Mr. MCHENRY. How can we enhance collaboration between agencies?

Mr. DODARO. That is an issue. Now, the Results Act of 2010 requires more consultation across the agencies. What one of our findings was in this recent report was that when the cost-cutting goals are now set, and there are 14 interim ones that are set by the Administration, all the agencies that should have been involved in those cross-cutting goals weren't involved. So we identified some additional opportunities for collaboration.

I think the Congressional challenge is where those cross-cutting goals cross multiple jurisdictions, I would recommend, and have recommended that there be more joint hearings between selected committees in the Congress, both within each chamber and perhaps even across chambers. Because otherwise, there won't be a totality and a good picture to look at over a period of time.

Mr. MCHENRY. Well, we hear you on that. And on the Oversight and Government Reform Committee, we have done, I think, a pretty good job of actually teaming up with other committees, and even at the subcommittee level, making sure we have joint hearings. That is more so where it is done.

Mr. DODARO. Right. We have also published the best practices guide on how to promote more collaboration among the agencies. It is particularly important when you have these inter-agency groups that there is clear responsibilities, there is clear structure, they set goals, they set milestones. A lot of times, we find that inter-agency groups are created, but they really don't set rigorous milestones.

Now, sometimes Congress has done that legislatively for them, either require these groups to be formed or to set particular goals for them. So that is another avenue. But I would be happy to provide this committee our best practices report on collaboration and provide any other support we can to help you in that regard.

Mr. MCHENRY. We appreciate the work the General Accountability Office, the GAO does. We certainly appreciate the good folks you have working for you and behind you today, and behind them, that are in that dungeon-like bunker that is the GAO headquarters.

Mr. DODARO. The sturdy building.

[Laughter.]

Mr. MCHENRY. Quite sturdy. Intended to be the National Archives, if I remember correctly, an Archives facility. So we need to get you a little more natural light over there. But we certainly appreciate the light you shine on important agencies.

With that, thank you, Mr. Chairman.

Mr. LANKFORD. Ms. Duckworth?

Ms. DUCKWORTH. Thank you, Mr. Chairman. And Mr. Dodaro, I just want to say that having been over in that building, it is filled with a lot of warmth from your workers. That makes up for the lack of light.

[Laughter.]

Mr. DODARO. We will continue with the theme, absolutely.

Ms. DUCKWORTH. Yes, exactly.

Mr. Dodaro, in your written testimony, you noted that Federal entities reported estimates of improper payment amounts that totaled \$107.7 billion for fiscal year 2012. Does that include the DOD's estimates as well, in that number?

Mr. DODARO. Some of the DOD estimates aren't included in there. There were problems with their estimating process, I believe. So OMB did not include them and some other agencies in there.

There are also some big programs that aren't in there yet, Congresswoman Duckworth. The Temporary Assistance for Needy Families, the TANF program, the direct loan education program is not in there yet. So that estimate is not complete.

Ms. DUCKWORTH. Okay. That is what I was trying to get to, because DOD is responsible for more than half of the Government's discretionary spending, and yet in your testimony you highlight the improper payment estimates, the shortcomings of DOD's financial management.

If DOD can't even properly estimate its own improper payments, doesn't that heighten the government's overall exposure to waste, fraud and abuse?

Mr. DODARO. Definitely.

Ms. DUCKWORTH. And some of those specific weaknesses that GAO has identified include DOD's failure to do the following things. They have not yet developed an appropriate sampling methodology for estimating improper payments, they have yet to produce a statistical estimate for its largest program, the DFAST program, which is of course personnel pay, commercial pay. And also they have failed to maintain key documentation supporting improper payment estimates. Is that correct?

Mr. DODARO. Yes.

Ms. DUCKWORTH. How concerned are you with DOD's failures in these areas?

Mr. DODARO. I am very concerned. And I have been for years. That is why we have put them on our high risk list in 1995, to try to shine a light on this problem, both for this Congress and to underscore to the Executive Branch how concerned we are about the situation over there. I think not only do you not have good accountability, but they are hampered in their ability to effectively make good timely decisions over there, because of the lack of good, reliable information.

Ms. DUCKWORTH. So what do you think is keeping them from developing some of these processes that are in place at other agencies, such as the statistical estimating and some of the tools that are being used? Why is DOD unable to do this?

Mr. DODARO. As you know, they are a very decentralized, large agency. And there needs to be central direction and management and leadership there to really bring this problem home. Because a lot of the data crosses across multiple parts of the Department in order to be able to pull the information together. For example, DFAST makes the payments, but you have the personnel records in another part of the Department. They don't match. They can't be reconciled appropriately.

So there hasn't been in the past, they are trying to do it now, but really top level management attention and authority that can enforce the change across the entire Department.

Ms. DUCKWORTH. So until some sort of centralized management or process is established at DOD, knowing that that is not there, how is DOD doing with regard to cutting waste and fraud by reduc-

ing the amount of improper payments, even if it is very decentralized in how they are going after it?

Mr. DODARO. Let me bring up, Asif Khan is focused on DOD financial management. I have given him the unenviable job of trying to make sure there are improvements over there.

Mr. KHAN. Thank you, Congresswoman Duckworth. That problem is going to continue to happen. It really has to be fixed at the local level, where the transaction originates. It is going to be some time before they begin to address that problem.

Ms. DUCKWORTH. Is the improper payments also tied to, this committee had testimony in previous hearings on just not keeping track of how we are paying contractors, what we are being charged by contractors is not accurate. Is that all part of this, especially overseas, Afghanistan?

Mr. KHAN. Yes, it is.

Ms. DUCKWORTH. It is, okay.

Mr. DODARO. Yes, but on the waste, fraud, potential mismanagement issues, DOD occupies about one-third of the 30 areas on our high risk list. Because it is not only financial management, we have inventory management, contract management on there, weapons systems acquisition. And all those areas are susceptible to problems. That is why we have them on our high risk list.

Ms. DUCKWORTH. Thank you, gentlemen. Thank you, Mr. Chairman.

Mr. LANKFORD. Thank you. I would like to recognize myself.

Mr. Dodaro, thank you as well, and your whole team, for the work that you do. I am trying to find out what we do know at this point and what we can know and what we don't have a capability to find out. So just let me run through a couple of things.

Can we at this point identify a list of all government programs that we have a list of, we know the agencies, the actual programs that exist at those agencies, does such a list exist that we can actually track and go through and compare?

Mr. DODARO. Not yet in any complete reliable way. I will ask Mr. Mihm to come up. The Modernization Act of 2010 required OMB to come up with such a list. They have produced now a list for each major department and agency, just recently, within the last month or two. Many other agencies have yet to report their list. We are looking at the list to make sure. Each agency was left to decide the definition of a program. So I don't know if there is consistency yet across what is there or not.

But it is in process now. It is very much needed, but I don't believe it is complete yet.

Mr. MIHM. That is exactly right. There is, the list is out there, at least the first part of the list is out there. There is not comparability across agencies. One of the things that we are evaluating is under a mandate that we have under the Modernization Act to periodically report is we are looking at that list and will be reporting to this committee and others on it.

Mr. LANKFORD. Will that list include a number of employees, and the administrative costs of the program, or just an actual list of the program itself?

Mr. MIHM. At this point, sir, we are a bit away from being able to get to the programmatic cost data on that. We are just working,

or OMB is just working on, let's just identify what government does in a consistent way.

Mr. DODARO. One of the limitations we have had when doing that overlap and duplication work is the lack of cost information, budgetary information for many of these programs. Once you get the list, that is really the next thing that needs to be put in place.

Mr. LANKFORD. Okay, step one, to know every building we have in Washington, D.C., and who is actually in there.

Mr. DODARO. Right.

Mr. LANKFORD. Step two, is a list of all the different departments that are within it. Step three, getting a chance to get a list of all those programs. And then we have to move to how much is the administrative cost for that program, how many employees are dedicated to that program.

Do we have any ability at this point to then take to that program, what are the metrics that you are using to find out if this is effective? It may have a great title for the program, but does it actually do anything? And is it accomplishing anything?

You had mentioned several points about metrics and standards and evaluating. How far away are we at this point, or is there any requirement that is out there that we actually get metrics for these different programs?

Mr. DODARO. There are requirements in the Government Performance and Results Act. But our work basically shows that is very uneven across the Federal Government. There may be metrics, but some of them are not outcome based, where you know the results of the program. You might know program activity. For example, how many people have been trained. But you won't know exactly how many people actually got a job or the results of that.

So I think that is a work in progress. But we point out in our reports much more needs to be done in measuring performance, both outcome, and then evaluating performance with program information that looks at trends and metrics over time, why you are falling short, how can it be improved.

So there is a ways to go until you have uniform, good, not only metrics, but good results across Federal Government.

Mr. LANKFORD. What is needed for that from us? Is that an OMB issue that they need to work out? Is there a statutory requirement that needs to be put in place to help provide a push to say, we have to have some way to be able to evaluate effectiveness or programs and to even know how many beneficiaries? You mentioned we don't know how many people are trained for a job, but we don't know how many people actually got a job.

I am not even sure, when I look through some of the programs, I can't even find out how many people were even trained for a job. It is just, this is the program that exists, no definition, no staff, no metrics, no number of beneficiaries, anything.

Mr. DODARO. And the real question, even if they did get a job, did that training help them get the job, or maybe many other factors had an influence on their ability. So unless you have that information, you don't know whether you are getting a good return on your investment. But Congress can do a lot more both through the consultation process under GPRA where they are required to be. I have recommended to the Congressional committees that you

outreach to the agencies and say, hey, you are supposed to be consulting with us. Let's talk about these things. These are the measures we would like to see put in place and improvements being made.

Then there is the oversight process and legislative process. Chris, anything else?

Mr. MIHM. No, I think on the consultation, it is a particularly important opportunity for this committee and other committees. These consultations should be starting this summer on the goals, on the strategic plans that are to come out with the President's next budget, as well as the agency priority goals. Those are the four to six top priorities that each agency is to establish. They have to consult with the Congress on those. And it is a very important opportunity to try to get a common understanding about what are we trying to achieve and how are we going to measure that performance.

Another big opportunity, and this is really one of the great insights of the Modernization Act, is it requires quarterly meetings to be held in the agencies on each of these agency priority goals. And then to discuss where are we, what do we need to do to improve and then rigorous follow-up to take place after that. It is modeled after what happened in New York City in the early 1990s called CompStat, and it has been used in CityStat and StateStat, the so-called Stat model. That data is to be published or is being published on performance.gov. That provides another great oversight opportunity. Because those are the priorities that the agency has established and so you can really follow up with them and say, where are you in terms of achieving those goals.

Mr. LANKFORD. Thank you.

Mr. Davis just walked in. Mr. Davis, I think you are up to bat next. Are you ready for questions, or do you want to defer? You just walked back in, so let me do this. Mr. Meadows.

Mr. MEADOWS. Thank you, Mr. Chairman. And thank you for being back with us, I thank each one of you for your hard work. I know that it is the support team that makes a big difference, as you will acknowledge.

I am troubled that we have hearing after hearing after hearing and really nothing happens. When you talk about over \$100 billion in really unaccounted for spending, it is one-tenth of our deficit. When we put it in perspective, that is one-tenth, we are sitting here trying to scramble, as members of Congress, to find \$86 billion. And you have found more than that just in funds.

I set up new offices, and when I did that, I found, I went out and negotiated with governments to make sure that we didn't have to pay for leases. So I am sitting there scrimping for \$250 or \$500 or \$1,000, so it is very frustrating when I see it, and I know you empathize.

One of the things that came up that gave me great concern though is we started sending rental payments to one of those vendors that never was authorized by us, we didn't even give an amount. So they just started making up an arbitrary payment. We wouldn't have known about it unless the government agency called us and said, I thought we were giving you this space for free. And

we are paying for it. So this unaccountability is across, it is systemic.

So I want to get to your earlier point. You talked about motivation and performance. Really, if we don't control the purse strings, we don't have any control. And if we don't have a motivation where if you do a bad job you lose your job, or if you do a bad job you get your budget cut, how do we fix that?

This is not, I would agree with my colleague opposite, Mr. Lynch, this is not based on this Administration or the prior. It is a systemic problem within government. So how do we fix that? And is it true? And I will ask this last one and I will let you comment on both of those.

My understanding is that, until about 10 or 15 years ago, we controlled probably 95 percent of the spending. Now congressionally we are only controlling about 35 percent. Is that a true statement?

Mr. DODARO. Yes, that is true. That is because most of the spending right now is through mandatory programs, whether it is Medicare, Medicaid or Social Security. The only way Congress can control that spending is by changing the requirements of who is eligible and what types of payments are made. If you add interest on the debt, of those three things, mandatory spending is taking up about 66 percent or so.

Mr. MEADOWS. Have we exacerbated the problem, though, by allowing agencies, when they get away with earmarks, we allow them to reprogram and we authorize the spending so they can move it around and have little penalties there as well? Have we exacerbated the problem with that?

Mr. DODARO. Well, I don't think necessarily that would have increased the problem. Because they are supposed to report what they are changing in most cases, and the Congress has an ability to inquire on that issue.

Mr. MEADOWS. We have the ability to inquire but not really stop. That is what I am finding, is when I call these agencies, they will talk to me, they have their congressional liaison and they will talk to you. But really, they are not afraid. Would you agree that most agencies are not afraid of Congress anymore?

Mr. DODARO. I don't know about that. It depends upon if somebody is just leaving the witness table and you ask them that question.

[Laughter.]

Mr. DODARO. But I do think there needs to be more teeth in place. To go to your very first question, what I have seen be effective is when we point out a problem, many times Congress will fence the money, that means saying, okay, we are going to appropriate this money but you can't spend it until we get a report from the GAO or some other thing that convinces us that you have a good plan in place, that you fixed earlier problems. So Congress has effectively used that. It could do it much more. And I think it would be more appropriate.

So Congress has the power of the purse strings. It has to be willing to use it effectively to leverage change.

Mr. MEADOWS. Can your staff report back to us on what we can do to highlight it so we can put more teeth into it? Because I think

it is time that the American people may want teeth. We look forward to your help there.

Mr. DODARO. We would be happy to do that.

Mr. MEADOWS. Thank you. Mr. Chairman, I yield back.

Mr. LANKFORD. Thank you. Mr. Connolly

Mr. CONNOLLY. Thank you, Mr. Chairman. Welcome back, General.

Mr. DODARO. Thank you, Congressman.

Mr. CONNOLLY. I want to talk to you about two things. I know my colleague Ms. Duckworth asked some questions about improper payments. But in the previous subcommittee, in the last four years, we had a series of hearings on improper payments. What is the estimate, the global number every year we think fall into that general rubric?

Mr. DODARO. The latest was \$107.7 billion. But that estimate, in our opinion, is not complete. There are four agencies and ten programs that are not yet reporting, including the large Temporary Assistance for Needy Families. Then there were another six agencies where their estimates were not good enough for OMB to report.

Mr. CONNOLLY. So it is north of the official figure?

Mr. DODARO. I believe so, yes.

Mr. CONNOLLY. If we were to say it was rounded out to \$125 billion a year, would that be a fairly safe rounded-out number, do you think?

Mr. DODARO. Given how these numbers vacillate, Congressman, I hesitate to give a guess on that.

Mr. CONNOLLY. Well, if we just took that number for a minute, we could take \$107 billion, too, but times ten, that number of improper payments over a ten-year period exceeds sequestration. Is that correct?

Mr. DODARO. Oh, sure. Yes.

Mr. CONNOLLY. And how well do you think the government is doing in trying to address that program? In theory, if you could get it to zero, which ought to be the goal, we will never quite attain that goal, but if you can give yourself a stretch goal, incredible things can sometimes happen, how well would you assess, General, that the Federal Government is doing in putting in place mechanisms to bring their respective numbers down?

Mr. DODARO. I would say there is a fair amount of activity, not much results yet.

Mr. CONNOLLY. One example, of that total, the lion's share is Medicare fraud, is that correct?

Mr. DODARO. Yes. Medicare, Medicaid, yes.

Mr. CONNOLLY. About \$50 billion a year?

Mr. DODARO. Forty billion dollars, \$50 billion, yes.

Mr. CONNOLLY. Do you believe that there is evidence that the U.S. Attorneys' offices around the Country, of which I believe there are 99, are sufficiently seized with this mission to bring that number down through prosecutions, investigations and prosecutions?

Mr. DODARO. I know that the HHS Inspector General's office works with them. They really focus on that area. I don't have a basis for answering that question, beyond knowing and seeing

there are prosecutions in some cases. I really don't have empirical evidence to answer that question.

Mr. CONNOLLY. Okay, well, I will give you a data point. One U.S. Attorney's office, New England, just one, is accountable for identifying and helping to recover \$3 billion of Medicare fraud. One. There are 98 others. Now, not all of them may be that big. But one of the things I would urge you to look at is, as part of this, are U.S. Attorneys' offices sufficiently seized with this mission? Because if every one of them replicated the zeal and the commitment of talent that this one did, we could bring that \$50 billion number down considerably.

Mr. Chairman, we were just talking about improper payments and some of the work this committee has done the last four years on a bipartisan basis to identify the problem and to try to get Federal agencies seized with this mission. I was pointing out, Mr. Chairman, that if you round it out at \$125 billion a year, and that could be a low figure, actually, but we will take that one, times ten, it exceeds sequestration.

So without raising anyone's taxes, without slashing any investments, here is low-hanging fruit, in a sense. And it just seems to me for want of a champion, for want of some focus, we are not making the kind of progress we need to be making.

Mr. DODARO. And I think, on your point, we will look into the U.S. Attorney's priorities on that. But that is one end of the problem, is to keep trying to get it back once it has gone out the door. The other side is preventing it. And I think for example, we have a recommendation that they establish surety bonds up front with new providers. So if you find payments later, the government has some money that they can offset up front, that hasn't been fully implemented yet as well.

So there are a whole range of things.

Mr. CONNOLLY. In addition to management, and my time is about to run out, but the Chairman and I co-authored a bill that is now part of the Defense Authorization Act and hopefully will become law. It is designed to provide some rigorous tools for Federal agencies to upgrade their management of IT. Acquisition, maintenance, personnel management. The Chairman identified that, for example, in the top 26 Federal agencies there are over 250 people with the title of CIO, which means this, right, no one is in charge, no one is accountable. Our bill is designed to try to at least have one main person called CIO who is infused with responsibility, authority and accountability.

The other thing behind this bill, though, is IT, if we are going to have to live with sequestration or something like it for 10 years, if you don't simply want an absolute contraction, a zero sum game, IT has promise, if properly managed, to help us on so many fronts, one of which is this, too. So I hope we can also look at how is IT being deployed so that we are not making the errors that are part of this hole.

Mr. DODARO. We are looking at that. We are looking at that, and you are absolutely right. I am very supportive of the provisions in that bill.

Mr. CONNOLLY. I just end with this, this is a subject this committee has done some real trail-blazing work on, I think, through

Congress. It is not a sexy topic, but it has real promise. I would hope, General Dodaro, that we can work together and try to create some metrics for Federal agencies. Because without metrics, it is aspirational. We need to move from the aspirational to the productive.

With that, Mr. Chairman, I yield back.

Chairman ISSA. [Presiding] I thank the gentleman.

I would say that our legislation really is as close to the swimsuit edition as you can get in legislation. So I am not sure I go with the gentleman that there is no appeal to it. I think it is pretty attractive.

Mr. CONNOLLY. I stand corrected.

[Laughter.]

Chairman ISSA. Mr. Bentivolio.

Mr. BENTIVOLIO. Thank you, Mr. Chairman. Thank you, Comptroller General. Thank you for being here today.

After listening to your testimony today, I can't help but remember a story a constituent told me, it is called government accounting, how you tell the story. Perhaps you have heard it, but just bear with me, about the three gentlemen walking down the street. It starts to rain, they each have \$10. So they pool their money together and get a hotel room for the night. And the hotel manager later discovers that he overcharged them \$5.

So he calls over the bellhop and wants the \$5 returned to the three gentlemen who pooled their money together to get the room. On his way up to the room, he pockets \$2 and he hands each of those three gentlemen back \$1. They each originally contributed \$10, minus \$1 is how much?

Mr. DODARO. Nine.

Mr. BENTIVOLIO. Nine, three times nine?

Mr. DODARO. Twenty-seven.

Mr. BENTIVOLIO. Plus the two in the bellhop's pocket?

Mr. DODARO. Right.

Mr. BENTIVOLIO. Where is the other dollar?

[Laughter.]

Mr. BENTIVOLIO. That seems to be the question. I find it startling how much taxpayer money we have seemingly lost track of in the Federal Government. Many government programs are on auto-pilot when it comes to their budget. Every year it is assumed that they need more money with zero-based budgeting, which would force agencies to justify every penny of taxpayer money they get to spend every year to help agencies account for the money that they receive.

Mr. DODARO. Pardon me, I am not sure I understood the question. I am still trying to figure out where the \$2 went.

[Laughter.]

Mr. BENTIVOLIO. One dollar.

Mr. DODARO. One dollar, right.

Chairman ISSA. Well, we would be thrilled if there was only \$1 that was unaccounted for.

[Laughter.]

Mr. BENTIVOLIO. Government accounting could add up to billions.

Mr. DODARO. Yes, definitely

Mr. BENTIVOLIO. When I explain that, it seems to me that is how government agencies account for their money, that is how they tell the story. We all know 25 plus 2 plus 3 is 30. So we can account for the money. But it seems that the government doesn't understand that. And they seem to lose a lot of money. It seems to me that if we got rid of the waste and abuse, we could probably afford a lot more or pay down our national debt.

But my simple question is, would zero-based budgeting, which would enforce agencies to justify every penny it takes of your money they get to spend every year, help agencies account for the money that they receive?

Mr. DODARO. I think that that effort has been tried a bit in the past. I think it has some potential value if it is implemented with a lot of less administrative sort of burden. But the idea though, of justifying the programs by showing good results, I would support that ahead of time. In other words, you have to justify the program's achieving its objectives with some empirical data that has been independently validated. I think that is the way to go.

Mr. BENTIVOLIO. Zero-based budgeting?

Mr. DODARO. It would justify what you are going to spend the money for if you have good information. I mean, a part of this is, you can send people to go through all the requirements, they will generate volumes of information, but it may not be accurate, it may not be good information and it may not be convincing. So it embarks on a big process where, at the end of the day, Congress is still left, even though it may be generated from a zero basis, with a lot of information that really doesn't help them make a decision on how to fund the money.

So to me, it would be better to focus on having them demonstrate results of the programs and justify the expenditures for the results that they are receiving. Right now, that doesn't happen. If you want to try to curtail a program or limit it, you have to prove it is not working and have data to do that. That is exactly the opposite of the way it should be, in my opinion. I think that would be a more effective way and a more efficient way for Congress to go about making its decisions.

Mr. BENTIVOLIO. Thank you very much.

Chairman ISSA. Would the gentleman yield?

Mr. BENTIVOLIO. Perhaps I could restate part of his question, which is not as much on this hearing, but I think it is germane to the gentleman from Michigan's question. If Congress in its appropriation were to have all appropriations not subject to CR unless specifically shown, in other words, when we authorize something and we authorize it for one year, and as you know, when we go into CRs, which happen often, essentially we keep money trapped in things which should have expired.

If we changed our bias toward, you must specifically have essentially an X next to something that says, this continues unless amended automatically, you could end up with, perhaps in discretionary spending, and even some that would be considered less than discretionary, you could end up with perhaps as little as 80 percent of the budget subject to CR, where you have an automatic cut to all these programs.

So instead of a CR, representing a continued resolution, substantially at the same rate unless you agree, you would have a cut automatically in all those programs with no replacements unless in fact the budget process used those funds with new appropriations. Wouldn't that move the bias toward what we would call automatic sequestration that is predetermined? Something that before sequestration we perhaps never thought of?

Mr. DODARO. I would have to think about that a little bit. I will give you a definitive answer. Offhand I would say that it holds promise to do that.

The other thing is that there ought to be mandatory, in my opinion, mandatory sunset provisions for every Federal program with a positive reauthorization act approach. What you are suggesting kind of goes in that direction. And for that reason I think it holds some promise.

Chairman ISSA. Thank you. You have looked at this in the past. Perhaps if you could dust off some of that and put those two together so that this committee could look to our brethren on appropriations with a mind toward current appropriations anticipating, if you will, sunset where appropriate under appropriations and then to the other authorization committees, the sunset inherent in authorization that could put this into play.

Mr. DODARO. Yes.

Chairman ISSA. Thank you. With that, we go to the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Mr. Dodaro, how are you?

Mr. DODARO. I am fine. Nice to see you.

Mr. DAVIS. It is good to see you.

GAO reported in its audit of the government's consolidated financial statements that it gave a disclaimer of opinion on the statement of social insurance for 2012, 2011 and 2010 because of significant uncertainties primarily related to the achievement of projected reductions in Medicare costs. Some of those uncertainties relate to whether projected statements from the Affordable Care Act would be fully achieved, is that correct?

Mr. DODARO. Yes, that is.

Mr. DAVIS. But there are other uncertainties related to Medicare savings that contributed to the disclaimer of opinion, such as estimated reductions in payment rates for physicians, is that correct?

Mr. DODARO. That is correct, and that is, as you know, probably for the last ten years if maybe not longer, Congress has always waived these provision cuts that should be in place. Last year I think they were estimated to be about a 31 percent reduction.

Mr. DAVIS. So I get to my point, I want to put this in perspective. GAO is not saying that savings won't be achieved under the Affordable Care Act. You are saying that the amount of Medicare savings in the future is not a certainty, it is not absolutely known?

Mr. DODARO. That is correct. And I might point out, Congressman, it wasn't just GAO. The Social Security trustees, which includes the Secretary of the Treasury and Secretary of HHS, said there were uncertainties and reported that with the estimates as well as CMS' actuary and the auditors there as well. So there is a general consensus. But you are right, we are saying it is uncer-

tain. Because it is uncertain there are alternative estimates that were made also, which show a swing of about \$10 trillion over this period of time on that \$27 trillion original estimate.

So it is potentially significant.

Mr. DAVIS. And even so, there are those who, in fact, try using that point to suggest that the Affordable Care Act is not going to save money, when in fact, if I am correct, it already has achieved significant savings. For example, in February, the Department of Justice and HHS announced that they had achieved \$4.2 billion in Medicare fraud recoveries. This is the highest three year returns on investments in the history of health care fraud and abuse programs.

I guess it is basically due to new tools to crack down on fraud and new ways of looking at it and ferretting it out. Is that correct?

Mr. DODARO. I would have to get back to you on that issue and supply something for the record. I will do that.

Mr. DAVIS. Bottom line, I mean, we are certain, in a real sense, that the Affordable Care Act has provided for savings and we can be fairly certain as we project that we are going to see additional savings as time goes on. Is that pretty close to how one can view what the data has shown?

Mr. DODARO. Our focus was on the future projections for the program, and what the assumptions were and the basis for those assumptions. That is what has led us to the uncertainty issue, and others that have looked at those areas. We have not looked at the counterpoint that you are raising right now. So I don't have an analytical answer for you on that issue. It is something that we can take a look at.

Mr. DAVIS. We would be pleased if you would do that. Thank you very much. And I yield back.

Chairman ISSA. Would the gentleman yield for a question? My staff tells me that recovery is based on legislation from 2006 that increased the audit. Are you speaking of some other aspect in the Affordable Care Act that would have led to that recovery increase?

Mr. DAVIS. Well, the legislation was done in 2006. So we were already privy to having it. And the Affordable Care Act, of course, makes use of it. So we still see the savings.

Chairman ISSA. I don't understand how the Affordable Care Act makes use of the Medicare, the Affordable Care Act hasn't taken effect, and the audits that are leading to greater recovery I think are coming out of that effort by Congress. They are both good efforts when it comes to trying to control costs. I just want to make sure the record is clear, and I think Mr. Dodaro can make it clear for us, where he thinks that savings or recovery has come from, what efforts and what statute.

Mr. DAVIS. And if I might, Mr. Chairman?

Chairman ISSA. Of course.

Mr. DAVIS. Just as we cannot be sure of how much savings there would be, we don't have any reason to suggest that there will be no savings. So I think what the Comptroller is saying, we haven't had enough experience yet to be able to make that determination. That is what he will look into.

Chairman ISSA. I look forward to discovering that with you.

Mr. DAVIS. Thank you.

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Georgia, Mr. Woodall.

Mr. WOODALL. Thank you, Mr. Chairman.

I want to follow up on a question that Mr. Lynch was asking earlier, talking about the importance of Congressional oversight, how folks were able to make a difference.

One of my great frustrations is that we seem to sometimes be Republicans against Democrats or House against Senate, as opposed to Article I versus Article II. Tell me about the effectiveness of oversight in the years that you have had a chance to watch it. Has it been Article I doing oversight over Article II, or has it been, as Mr. Lynch suggested, the Republicans doing good oversight over Democrats, and Democrats doing good oversight over Republicans but not necessarily houses of the same party doing good oversight over their Executive Branch president?

Mr. DODARO. Over the years I have seen a variety of oversight techniques that fall into all the different categories that you talk about. The most effective is when Congress is united in its oversight over an Executive Branch function or activity, and even when there is support from GAO or even OMB, in some cases, on the need to make improvements, when there is a consensus, where facts have been developed, there is a clear record that there is a problem that is sort of an unimpeachable kind of a problem statement. People may disagree on how to solve the problem. But at least you have the facts.

I think those types of oversight vehicles are the most effective.

Mr. WOODALL. Does it take two houses in Congress doing oversight to achieve those goals, or can you do it in a unicameral way?

Mr. DODARO. You can do it in a unicameral way. Unless the solution is rooted in legislation that needs to be put in place, then obviously you need both houses involved. But a lot can be accomplished without legislation.

Mr. WOODALL. Well, as you go through that high-risk list and you look at things that have been accomplished, you do see the effective list of things that could be done strictly within an Administration and those things that require Congressional activity. My recollection is we don't do nearly as well on those things that require Congressional action to get them done.

Let me talk about Medicare for just a moment. I put that doc fix in the category of things I tell my constituents back home, if I tell you I am going to solve this in years eight, nine and ten of the ten-year budget window, you should just ignore me altogether. The question is, what am I willing to do this year to make things happen.

I tell my friends in the physician community that they should stop lobbying for the doc fix, they should let those cuts go into effect and they should let my mom and dad begin to lobby to have the doc fix fixed. Because at the end of the day, when you reduce the payments the physicians are receiving, it is reflected in the quality of care that my mom and dad on Medicare receive.

Thinking about effective oversight that changes things, do you have any examples in the time that you have been leading where the American people have led in getting a change implemented? I always think about catastrophic care, and Chairman Dan Rosten-

kowski, back in the day, having his car rocked by angry seniors. And guess what, that got wonderful results here on Capitol Hill. Have you seen the American public being the partner of GAO in good accountability?

Mr. DODARO. Yes, definitely. I think the example you gave, the other one was when the premiums were raised on Part B. During that period of time, there was a huge backlash. Another example, just at the GAO, we have a hotline where people can call in from the public and suggest areas where they think there is fraud, waste and abuse. The ones that we find that are credible are the kinds of tips we follow up on and save money in a couple of cases.

So the public can be better informed, and I think if they are better informed they can be very helpful in providing that type of oversight that you are speaking about.

Mr. WOODALL. And if I were to call CMS today and say, my mom and dad received a \$100 charge for a doctor they never saw, could it possibly be a legitimate charge, I am sure they would tell me that they are working on billion dollar fraud cases and they don't have time to look into my \$100 fraud case. Is there a threshold as the public calls in with those tips for all that you have to do with the limited staff that you have to do it with, what rises to the level?

Mr. DODARO. We will evaluate it. We wouldn't want to do something where we spend more money than what we potentially could save on those areas. But I would say that, to CMS, we spend the money \$100 at a time, we need to take a look at everything.

Mr. WOODALL. When we are talking about trying to have effective government and efficient government, I just want you to know how much fun it is for me to watch your team behind you as these questions come out and you answer them. It is not just one head as a subject matter expertise that is nodding behind you, it is four or five heads, all of the know exactly what is going on and say, yes, this is what that is.

Mr. DODARO. Thanks for that feedback. I find that encouraging. I don't usually find out until after the hearing how well they did. [Laughter.]

Mr. WOODALL. Thank you very much. Thank you, Mr. Chairman. Chairman ISSA. I thank the gentleman.

I believe the gentlelady from California, Ms. Speier, is next. I am sorry, Ms. Kelly.

Ms. KELLY. Thank you, Mr. Chair.

Thank you for being here. One of the challenges in evaluating whether agencies are duplicating efforts is the fact that until recently there was no inventory of agency programs. OMB is now required to publish a list of all agency programs. They just released this first list in May. The list of agency programs can be found on the website, performance.gov.

Do you believe that requiring agencies to provide information about what programs they have will help Congress and the public hold agencies more accountable?

Mr. DODARO. Yes, definitely. And we would be enhanced better if we get the complete list and it is accurate.

Ms. KELLY. Okay. One of the significant improvements made by the GPRA Modernization Act was the establishment of perform-

ance.gov. It is a government-wide website that will allow the public to access information about government performance.

Do you believe this has improved the transparency of information about agency performance?

Mr. DODARO. I think it is a good start. But as we point out in our report, there are a lot of opportunities to have that website become much more effective and helping promote transparency and accountability and by becoming more searchable, user-friendly, et cetera. So it is a beginning.

And I think a lot of the efforts that have been legislated by the Congress over the years, usaspending.gov, recovery.gov, the performance.gov, is important and helpful. I would encourage the Congress, as we have been discussing a little bit earlier, to think about ways that that could be even improved further, and that the Data Act would require that.

Ms. KELLY. Also, GAO issued a report last month titled *Managing for Results: Leading Practices Should Guide the Continued Development of performance.gov*. One of the points that this report makes is that moving forward, OMB should increase its outreach to stakeholders. GAO uses Maryland's Governor O'Malley's performance website, StateSat, as an example: "Following the initial creation of the State's performance reporting website, officials in Maryland analyzed the website's performance metrics to get a sense for how people were using the site, as well as the information they were searching for. They also employed usability testing to collect insight into the navigation and content of the website. From these insights, they identified the need to make information on related State programs and resources more easily accessible through the website, which is now reflected in its design."

Do you feel that OMB evaluated the lessons learned from State and local websites, such as Maryland's StateStat or Boston's About Results, or is there something OMB should be doing to improve performance data?

Mr. DODARO. I will ask Mr. Mihm to answer that.

Mr. MIHM. OMB was certainly aware of these other websites. As to whether or not they did a rigorous evaluation, the answer to that is no. And one of the things that we recommend is, as you pointed out, that they look at those websites, they look at howto.gov, which is the Federal Government's best practice guide for government websites, and make sure that they are consistent with those standards there.

The key thing they had with performance.gov, as you mentioned, it has an awful lot of information in there, a lot of very valuable information in there. But it is really at this time set up for inside baseball, that is, you have to be a Fed looking for other Federal information. It is not very forward-facing to citizens or to the Congress. That is the next step that they really need to take.

Ms. KELLY. I am very happy to hear that. Thank you very much.

Ms. CUMMINGS. Would the gentlelady yield?

Ms. KELLY. Yes, I will yield.

Mr. CUMMINGS. I am very familiar with the Maryland system that you just talked about. Because Governor O'Malley was my mayor, and now of course my Governor. One of the things that the system did bring was accountability. We were able to track the per-

formance of government, how effective and efficient government was being. But you see value in that, though, right?

Mr. MIHM. Oh, yes, absolutely, sir.

Mr. CUMMINGS. Because before that, you didn't know what trash wasn't being collected, what things were not being addressed. Now you could actually say, okay, on zone three of the police department we have X amount of things going on, this was the response. And basically they would flash it up. We could come in as members of Congress or anybody, sit there and see exactly how government was functioning.

I don't know how much with regard to cost that it went. But in regard to effectiveness and the use of the taxpayers' dollars, I thought it was a very good thing on the part of the Governor.

Mr. MIHM. Yes, sir. In fact, a few moments ago, we were talking about how under the Modernization Act, it took the model that has been used in Baltimore with CityStat, StateStat, and that is now a Federal requirement. That type of information has to be available on performance.gov as well.

We evaluated the Federal efforts on that, and actually looked at it from two different perspectives. First is that the question each time as you have moved up the stat model, from CompStat to CityStat to StateStat is, does it scale. Governor O'Malley had a great line when he became Governor of Maryland, he said it was a bigger ship but smaller rudder. He figured out how it changed the government at that level.

So we were looking at that at the same level, at the Federal level, at the stat meeting scale, do they work at the Federal level and do they work for cross-cutting programs. We found it does scale, that is, Federal managers and leaders of agencies, and this is a leadership strategy, are using them. What we did not find but are looking forward to finding as we do additional work is, are they actually using them to coordinate cross-cutting programs.

As you know, the extent in Maryland, the beauty of that is the Governor also set up his priority goals for the State and those are actually what brought together a variety of State programs. Those are reported on the website. You have BayStat, which brings together various jurisdictions and levels of government to talk about the health of the Chesapeake Bay.

So this is a very powerful device as a leadership strategy, if it is actually used to drive performance.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Chairman ISSA. I thank the gentleman.

We now go to the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman.

You talked about savings in Medicare. In 1990, after 25 years, Medicare cost 12 times more than the original projections when it first passed. Now the costs on Medicare have quadrupled since 1990. So Medicaid has a similar history. All these Federal medical programs, the Congress has always received very lowball estimates on the front end. Then the costs have just exploded. Already I have read articles saying that the so-called Affordable Care Act, which I refer to as the Unaffordable Care Act, the cost projections are two and three times when we originally passed.

I notice, I am sorry I had to be in another committee, and I wasn't here for most of your testimony, but in your testimony, Mr. Dodaro, you say the Federal Government was unable to demonstrate the reliability of significant portions of its consolidated financial statements. And then you say another place that our work has found that the information provided to Congress is not always useful for Congressional decision-making, because the information was "not clear or directly relevant or sufficiently detailed."

Mr. DODARO. Right.

Mr. DUNCAN. Then I looked at the back page of your report, and I see almost every agency, the opinion expressed by the agency auditor, almost all of them say unqualified. I am not an accountant, so I am not really clear. What exactly does that mean?

Mr. DODARO. For 21 of the 24 departments and agencies, they got an unqualified, clean opinion. So they are fine. Where you have problems is DOD and DHS and another agency, they did not give any clean opinions. But DOD accounts were over a third of the Federal Government's assets.

Mr. DUNCAN. I saw that figure, 34 percent.

Mr. DODARO. Right. And over 20 percent of spending on the part of their programs. So it is a huge obstacle to getting an opinion on the consolidated financial statements.

There is a lot, also, of activity where agencies have to do business with one another or have transactions. Treasury can't net those out effectively and balance the statements. In fact, they have to add in a \$20 billion net sort of plug figure in order to make the statements balance.

And then the government-wide statements aren't effectively reconciled to the audited financial statements of the agencies that you are holding there in your hand. So there is a discrepancy, and an inefficiency and ineffectiveness in how the consolidated statements of the Federal Government are compiled. So that is the reason for the differences in the statements in that listing of agency audits.

Mr. DUNCAN. And there is a deadline, the Department of Defense has been given a deadline of 2017, is that correct?

Mr. DODARO. That is correct, for a full auditability, 2014 for an audit of their statement of budgetary resources, which would account for how they account for their budget.

Mr. DUNCAN. All right. Let me ask you something else. We always hear, I read so many different articles about these unfunded future liabilities. And I see all these figures that are way up there in the megatrillions. Do you feel like we have a good handle on that? Where are we headed with these unfunded future liabilities for all the different things we promised the American people?

Mr. DODARO. Basically, in addition to doing the audit or the consolidated financial statements, we do long-range simulations of the Federal Government's budget. And our conclusion is while the Budget Control Act and the American Taxpayer Relief Act provided some help in bringing down the deficit, that long term, over the next sort of 70-year period, maybe even shorter than that, the Federal Government is on a long-term unsustainable fiscal path that right now, debt held by the public is at 73 percent of gross domestic product.

Historically, the 40-year average has been about 39 percent. The demographic wave, and the main reason is for the unsustainable path, or the changing demographics, between now and 2029, every day, it will be on average about 10,000 Americans turning 65. They will be hitting the Medicare program.

So we are going to go into this demographic wave. Health care costs, while coming down a bit, are still rising faster than gross domestic product. And the combination of those factors, I mean, the trustee estimates predict Medicare trust fund will exhaust in 2026, Social Security trust fund will be exhausted in 2030, the disability component of the Social Security trust fund will be exhausted in their predictions in 2016. We are showing, unless something happens on the short term, the annual deficits coming down from where it was in the past several years, which is a good thing, but we still have a deficit which is adding to the cumulative debt.

So we are going into, some of our projections show between 2028 and 2034, under any scenario, we potentially, unless changes are made, will have debt held by the public higher than 100 percent of gross domestic product, which means we would be owing more than we are producing in the entire economy. We have only hit that historic high, it was during World War II, which was 109 percent. So I am very concerned about the future financial path that the Federal Government is on.

Now, we report that every year, these statements, and then we do updates every two years. We have actually got now an accounting standard put into the consolidated financial statements that requires a fiscal sustainability projection, a model, which is included in this report. So the Administration agrees that we are on an unsustainable path, and so does CBO.

Mr. DUNCAN. My time is up, but I heard in a meeting just this morning that Turkey, for instance, has a debt to GDP ratio of 35 percent. And now we have this \$17 trillion debt. And I think about \$15 trillion or \$16 trillion economy. It is just mind-boggling. And we keep spending money like there is no problem, or like there is no tomorrow.

Thank you. I really appreciate the efforts that you are making in that regard, and the way that you are trying to be a Paul Revere about this situation. Thank you very much.

Chairman ISSA. I thank the gentleman.

We now go to the gentlelady from California, Ms. Speier.

Ms. SPEIER. Thank you once again, Mr. Dodaro, for your outstanding leadership. I am sure sequester is impacting you as well. And if there is one agency that pays for itself over and over again, I would suggest it is your agency.

What is the impact of sequestration on your agency?

Mr. DODARO. We have been reduced in staff size about 14 percent since 2010. Now, of course that was earlier than sequestration but sequestration compounded that. So we are at our lowest staffing level since 1935.

Ms. SPEIER. The lowest staffing level since 1935?

Mr. DODARO. Yes.

Ms. SPEIER. And how has our budget grown since 1935?

Mr. DODARO. Oh, quite a bit. And government is a lot bigger than it was since then.

Fortunately we have been able to handle it by downsizing. So I haven't had to lay anybody off or furlough people. But we just don't have enough staff to get to all the requests in a timely manner than we have. So I am hopeful this year we will do well. Last year we returned \$105 for every dollar spent in GAO, over \$55 billion in documented financial benefits as a result of our work, let alone all the work we did to inform the Congress for oversight purposes.

Then we had over 1,400 other non-financial benefits changes and laws, et cetera, that have helped improve public safety and improve management.

Ms. SPEIER. Okay. In your report, you reference the lack of accountability in the Army's payroll system. In fact, you say the Army and Defense Financing and Accounting Service could not readily identify the full population of payroll accounts associated with the Army's \$46 billion active duty military payroll because of these deficiencies.

Does that mean that the Army doesn't know how many people it is paying for?

Mr. DODARO. I will ask Asif Khan, who has been focusing on this.

Mr. KHAN. That is correct. At times the Army does not know exactly how many people they are paying, because of the lack of systems and the lack of processes and controls.

Ms. SPEIER. Does that mean that the Army is not able to reliably match a soldier's personnel file to their payroll file to make sure that they are being paid the correct salary?

Mr. KHAN. That is correct. That is a condition there.

Ms. SPEIER. So maybe we should alert everyone who is serving in the Army that they should check their payroll stubs very carefully, because they could be being paid the wrong salary.

Mr. KHAN. That is correct. There could be overpayments and underpayments, based on our experience and the work that we have done.

Ms. SPEIER. This is pretty outrageous, isn't it?

Mr. DODARO. This is not what you expect.

Ms. SPEIER. All right. You have also identified that certain inter-governmental accounts were not in agreement to the tune of hundreds of billions of dollars, despite the fact that OMB and Treasury required CFOs of 35 significant Federal entities to reconcile, on a quarterly basis, their inter-governmental activity and balances with their trading partners.

Are there any consequences for the failure to perform these year-end reconciliations?

Mr. DODARO. No meaningful ones, no.

Ms. SPEIER. Okay, so if a CFO of a major corporation failed to reconcile their books, presumably they would be fired and face action by the SEC. But because they are doing business with the government, they don't have to reconcile their books, and there is no consequence. Is that reality?

Mr. DODARO. That is reality. That is exactly where it is. That is why I think there needs to be more rigorous Congressional oversight. In fact, and Gary, correct me if I am wrong, in about 14 cases the CFO said they don't even know why, they are not even given an answer.

Ms. SPEIER. Can you provide the committee with those companies and those CFOs?

Mr. DODARO. Yes, we can.

Ms. SPEIER. And I really think that this is pretty outrageous. And if we are doing business with companies that can't reconcile their books and refuse to do so, then why are we doing business with them? There should be consequences to not complying with the requirement to reconcile the balances with their trading partners. What would you recommend as a penalty? Loss of a contract? A thousand dollars a day? What would be appropriate?

Mr. DODARO. I think there has to be some link to the agency's appropriation process in order to do that. It becomes a tricky issue. But my first recommendation is that we start with Congressional oversight, make them explain it, and give them a deadline in which they have to rectify the problem. Part of the issue right now is there is not enough pressure on them to cause them to do this. Treasury tries to control them and to work with them and to support them.

But there really isn't enough, in my opinion, Congressional pressure. I am also trying to make sure that it becomes a higher level attention within the Administration as well. But then there has to be some penalties in places you are talking about. That part I can provide something for the record on, what we found to be effective.

Ms. SPEIER. Would you also provide it to my office?

Mr. DODARO. Yes.

Ms. SPEIER. Thank you.

Chairman ISSA. I thank the gentlelady. We now go to the gentleman from South Carolina, Mr. Gowdy.

Mr. GOWDY. Thank you, Mr. Chairman. Because of your work on this issue, and your leadership, I am going to yield my time to you for continued questioning.

Chairman ISSA. You have a great future with this committee.

[Laughter.]

Chairman ISSA. Mr. Dodaro, I have just a couple of wrap-up questions on this time. One of them is, following up on Ms. Speier's question, now that there is no longer a Circuit City, I will use them as an example. When I was in business, I did tens of millions of dollars with Circuit City. Their receiving system was such that they would receive eight boxes one day and two boxes the next day. They would record the eight boxes with two short, and then the next day when they received the two, they would put them in inventory and never count them against the two they reported short.

So over a period of years, I ended up with millions of dollars of money they didn't pay me, and we were constantly showing proofs of delivery and so on. Now, Circuit City was easy to do business with compared to the Federal Government. So one of the questions I have is, within this report, these plugging in of numbers, isn't some it inherent with these contractors delivering and the frustration of how the government receives and accounts for the goods? In other words, doesn't it take two to end up with this problem?

Mr. DODARO. Definitely, yes.

Chairman ISSA. I wanted to make that clear, because I think the gentlelady was right, that we do have to be less tolerant. But I think we have to be less tolerant of both sides.

Mr. DODARO. Yes. I will give you a classic example. The DOD systems, their legacy financial management systems, don't even identify who their trading partner is. So that is a big part of the problem, is DOD. So that is a classic case of where you can't necessarily automatically fault the other party, because the counterparty is potentially causing most of the problem.

Chairman ISSA. I appreciate that. We will try to work on both sides.

In closing, on page 25 of your report, where it is Appendix I, it says, Chief Financial Officers Act, and it shows the audit results by agency. So for example, Commerce got an unqualified agency audit by KPMG. And just to give you one more, Ernst & Young did not give an unqualified audit on Health and Human Services. And PriceWaterhouseCoopers, I want to get all of them in here somewhere, I don't see them.

The fact is, next to most of these unqualified, and not unqualified, with the exception of Justice, Labor and the National Aeronautics and Space Administration, National Science Foundation and the Nuclear Regulatory Commission and the Office of Personnel Management. Those were all the exceptions. And the Department of Energy.

With the exception of those I just named, all these others have a check mark that I want to make sure we say what it means. It says, "Agency auditor reported material weakness or non-compliance." Now, I oversaw both public and private companies. So I am very aware of what my audit is, and I know that there is always something that can be improved.

But when it says material weaknesses and non-compliances, that really is not truly an unqualified audit. That is an unqualified except for this qualification, isn't that true? These are not clean audit results.

Mr. DODARO. These are a separate reporting that is required under the Federal Financial Management Improvement Act, where the agencies have to demonstrate that they can record things that is a standard general ledger transaction and transaction levels, and that their systems will comply with accounting standards. And what this basically means is that the agencies compile their year-end financial statements, many using manual procedures and documentation. But their systems are not up to standards in producing timely, reliable information throughout the year.

Chairman ISSA. Let me put this into terms the private sector might understand, and you correct me if I am wrong. For example, at Commerce or Defense, any number of these agencies that have these unqualified but material weaknesses, one, material weakness may mean that fraud can go undetected. You might have balance sheet that is accurate, but you may have been ripped off, that proper accounting for whether people actually put in time or don't put in time, they get paid, and you know how much they got paid, but they may not have actually done the work.

All of those are examples, or some of those are examples of material weaknesses in that yes, you have given us a financial statement that shows where you are, how much you have spent and how much you have, but you through haven't actually told us whether the money is flying out the back door through waste, pur-

chases that are paid for on products not received, those are all material weaknesses that can be and are likely included in many of these reports, isn't that true?

Mr. ENGEL. That is correct. Essentially what the unqualified opinion on financial statement tells you is that they have a process in place to produce a set of financial statements at year-end that will appropriately account for the activity in accordance with generally accepted accounting principles. It does not speak for the condition of their underlying internal controls.

Chairman ISSA. So I think for the public, at the close of this, I want to say, as chairman, that I look forward to us having all the agencies, including the Department of Defense, have unqualified financials. But it actually bears little, it is only a starting point, for accounting for every penny for the American people so that we know it is actually being exchanged in return for the value that was agreed to, isn't that correct?

Mr. DODARO. Yes, that is exactly correct. And actually, the original legislation, the Chief Financial Officers Act, goes to that very point about having timely, reliable information, good controls, and the audited financial statements are only a step, a tool to achieve that longer term, more complete goal.

Chairman ISSA. I thank you for your testimony today. It has been extremely valuable. I won't say that it is as optimistic and uplifting as we would like. But as always, you give us the truth, even if it isn't what we would love to hear.

And we stand adjourned.

[Whereupon, at 11:36 a.m., the committee was adjourned.]

